



Commonwealth of Pennsylvania

Comprehensive Annual Financial Report

For the Fiscal Year
Ended June 30, 2018

Governor
Tom Wolf



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Commonwealth of Pennsylvania

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2018

Tom Wolf, Governor



Prepared By:

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Office of the Budget

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Office of the Budget

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Chief Accounting Officer

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**Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018**

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

RANDY ALBRIGHT
SECRETARY
OFFICE OF THE BUDGET

December 13, 2018

To the Honorable Governor, Lieutenant Governor, Members of the General Assembly, and Citizens of the Commonwealth of Pennsylvania:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania (Commonwealth) as of and for the fiscal year ended June 30, 2018. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements, pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

The Basic Financial Statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects and that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net position/fund balances. All disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of Basic Financial Statements. The Commonwealth has established a cost-effective system of internal controls that is however, subject to inherent limitations. As is in any system of internal controls, there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

The Commonwealth's June 30, 2018 Basic Financial Statements have been jointly audited by the Department of the Auditor General and CliftonLarsonAllen LLP, an independent public accounting firm. The independent auditors' unmodified opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information that is included in the Basic Financial Statements.

Management's Discussion and Analysis (MD&A), which precedes the June 30, 2018 Basic Financial Statements, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the basic financial statements. This section immediately follows the auditors' opinion. In addition to the MD&A and Basic Financial Statements, this CAFR includes: budgetary comparison schedules; combining fund financial statements; other supporting schedules; narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as reported over the last ten fiscal years.

PROFILE OF THE GOVERNMENT

Pennsylvania, also known as the Keystone State, is one of only four Commonwealths in the United States. Pennsylvania earns the title of Commonwealth as a result of its organization by the common consent of the people during colonial times.

The Commonwealth of Pennsylvania provides a wide range of services to enhance the quality of life for its 12.8 million citizens. The Commonwealth divides these essential services into seven broad program categories, consisting of direction and supportive services, protection of persons and property, health and human services, public education, economic development, transportation, and recreation and cultural enrichment. This programmatic approach enables Pennsylvania to effectively serve its citizens.

The Commonwealth of Pennsylvania, aside from the defined primary state government, is also accountable for a number of legally-separate component unit organizations. The major discretely presented component units in Pennsylvania include the Pennsylvania Turnpike Commission, the Pennsylvania Housing Finance Agency, the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Infrastructure Investment Authority, and the State System of Higher Education. Although the Commonwealth does not directly control or operate these component unit organizations, it is still financially accountable for them, and therefore includes them in the Commonwealth's financial reporting entity and reports them separately within its government-wide financial statements. The Commonwealth of Pennsylvania also accounts for two additional component unit organizations, the Commonwealth Financing Authority and the Philadelphia Regional Port Authority. These organizations function as an integral part of the Commonwealth's primary government; therefore, their financial information is blended with the Commonwealth's primary government financial information.

Pennsylvania government has three distinct branches: the legislative branch, the judicial branch, and the executive branch. The legislative branch, comprised of the Senate and House of Representatives, develops and passes the Commonwealth's laws. The judicial branch, made up of the Pennsylvania Supreme Court as well as other specialized courts, serves the Commonwealth by interpreting the laws put in place by the legislative branch. The executive branch, consisting of the elected Governor, Auditor General, Attorney General, State Treasurer, and other appointed officials, works to enforce the laws established by the legislative branch. With these three branches of the Pennsylvania state government, an effective system of checks and balances is created. The Commonwealth's principal leadership and organization charts at June 30, 2018 are incorporated immediately following this letter.

GENERAL FUND

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2018. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in special funds, and accounts for a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate net income, and sales and use taxes, constitute approximately 92.6% of the General Fund budgetary basis state revenues.

BUDGET ADOPTION AND LEGAL COMPLIANCE BUDGETARY COMPARISON SCHEDULE

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) immediately following the Notes to the Financial Statements. The legally adopted budget provides statutory control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriations. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2018.

**BUDGETARY BASIS GENERAL FUND BALANCE INCREASE/(DECREASE)
FIVE MOST RECENT FISCAL YEARS**

The following table shows the General Fund’s year-end fund balance and increases or decreases on a budgetary basis at the end of the five most recent fiscal years (amounts in millions):

**Budgetary Basis General Fund Balance
Increase/(Decrease) Last Five Fiscal Years at June 30**

<u>Fiscal Year</u>	<u>Balance/(Deficit)</u>	<u>Increase/(Decrease)</u>
2018	\$ 22	\$ 1,547
2017 (revised)	(1,525)	(1,530)
2016 (revised)	5	(252)
2015 (revised)	257	173
2014 (revised)	84	(463)

During the fiscal year ended June 30, 2018, General Fund revenues and other sources exceeded General Fund expenditures by \$1,547, and at June 30, 2018, the Commonwealth reported a budgetary basis surplus of \$22 in the General Fund. The budgetary basis results for the fiscal year ended June 30, 2018 include revenue collections totaling \$64,881, less appropriation authorizations totaling \$63,601, plus other net financing sources totaling \$267. Included in the \$63,601 appropriation authorizations are \$7 of state supplemental appropriation reduction and \$275 in federal supplemental appropriations authorized for the fiscal year ended June 30, 2018 (amounts in millions). On a budgetary basis \$22,362 was transferred from the General Fund to the Budget Stabilization Reserve Fund during the fiscal year ended June 30, 2018.

ECONOMIC CONDITION

Pennsylvania benefits from a highly diversified economy with a mix of industries, and no one single employment sector dominates. Since the turbulent diversification of the Pennsylvania economy during the 1970’s and 1980’s, Pennsylvania has a much more stable economy which tends to track the national economy but with less volatility. During periods of national economic contraction, Pennsylvania often will outperform the U.S. in areas such as growth in real gross state product, real personal income and employment. Pennsylvania’s unemployment rate generally trends below the U.S. rate, and per capita income levels in the Commonwealth exceed national levels. However, during periods of economic expansion, Pennsylvania will often lag behind the rate of growth in the national economy.

Pennsylvania will continue to benefit from the Marcellus Shale natural gas deposit. The buildout of infrastructure to move gas to the market will continue with the construction of pipelines, compressing stations, and processing facilities. Eventually the Utica Shale will provide jobs in the mining industry. The state may also attract jobs in industries that can benefit from the increase in natural gas supplies, either for low-cost energy or for inputs into chemical products. The current growth phase in the Marcellus Shale production continues to mostly involve building infrastructure to service existing wells. Royal Dutch Shell is moving forward with its proposed processing plant in Beaver County. The plant will process ethane from nearby natural gas wells in Pennsylvania, Ohio, and West Virginia into ethylene, which is the building block of plastics. The plant will provide hundreds of jobs and ensure market access for locally produced natural gas liquids.

The Pittsburgh area continues to attract high-tech jobs such as software development. This, along with the state’s numerous high-quality research universities, is helping to mitigate job migration. Tech giants Google and eBay have recently moved into the area, while Westinghouse is in the process of expanding its headquarters in the region.

The Port of Philadelphia is reporting sharp increases in import volume. This is due to the expansion of the Panama Canal that has reduced the cost to ship from the Pacific Ocean to the East coast. Pennsylvania is investing \$300 million in the Port of Philadelphia to increase capacity and compete against other ports on the Eastern seaboard. The Port has reached a deal with Hyundai to handle 150,000 cars annually through the port. The related facility will employ approximately 400 workers.

South-central Pennsylvania continues to grow as a distribution hub for the northeast region. Norfolk Southern is building an intermodal terminal southwest of Harrisburg. Their \$95 million facility is part of the "Crescent Corridor" project, a rail corridor from Louisiana to New Jersey.

Education and healthcare sectors remain a vital part of the state economy. The healthcare sector expects to benefit from increased demand building upon expanded insurance coverage already provided through the Affordable Care Act. Pennsylvania also boasts many top-flight research hospitals that draw patients from outside the state. The state's education providers, especially its notable research universities, not only provide jobs on campus but also help to nurture new businesses with the graduates they produce.

Pennsylvania is expected to add jobs at an annual average rate of 0.7% between 2018 and 2020. The healthcare sector continues to be a reliable source for new jobs and investment, while construction expands due to increased activity in residential and commercial development, as well as infrastructure spending. Overall employment growth in Pennsylvania is expected to be 1.1% for 2018. The state's unemployment rate is anticipated to continue to fall below its current 4.7%.

LONG TERM FINANCIAL PLANNING

The Commonwealth continues to improve its overall financial condition with an emphasis on improving the strength of its General Fund. As part of its fiscal year 2018-19 budget, the Commonwealth amended its fiscal code via Act 42 of 2018, which provides \$30 million in settlement revenues to the General Fund. The Commonwealth also enacted Act 40 of 2018 (amending the Human Services Code) extending the statewide quality care assessment through June 30, 2023, resulting in a savings of \$295 million to the General Fund through fiscal year 2020-21. Beginning in fiscal year 2021-22, savings related to this assessment will increase by \$5 million.

Expanding its gaming laws, Act 42 of 2017 provides additional recurring revenues to the General Fund via taxes on newly authorized video game terminals, table games, internet gaming, and fantasy sports.

The Commonwealth is also working to shrink its long-term cost drivers. For example, the Commonwealth enacted Act 71 of 2018 providing for civil service reform, which is anticipated to result in annualized savings of \$1.7 million beginning in fiscal year 2019-20, with additional opportunities for savings through a consolidation of recruitment resources and reduction in the number of test centers. Additional savings will be realized beginning in fiscal year 2018-19 through a reorganization of the Commonwealth's human resources and information technology services structure.

The Commonwealth continues to closely monitor all state agency expenditures and is restricting hiring and spending to only those areas which are necessary to maintain the Commonwealth's health and safety programs and other core functions. In addition, agencies are urged to identify inefficiencies created by outdated legislative mandates as well as regulatory changes to streamline program operations.

Updated projections of the Commonwealth's financial activity and expenditures will be included in the Governor's Fiscal Year 2019-20 Executive Budget request which will be available on February 5, 2019 via the Office of the Budget's website (www.budget.pa.gov).

CERTIFICATE OF ACHIEVEMENT

The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its CAFR as of and for the fiscal year ended June 30, 2017. This represents the thirty-second consecutive year the Commonwealth of Pennsylvania has received this award.


To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized CAFR, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal

requirements. A certificate of achievement is valid for a period of one year only. We believe the CAFR of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2018 conforms to the GFOA's award criteria.

ACKNOWLEDGMENTS

We wish to express our appreciation to the staff of the Office of the Budget, Office of Comptroller Operations and Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.

Sincerely,



Randy Albright
Secretary
Office of the Budget

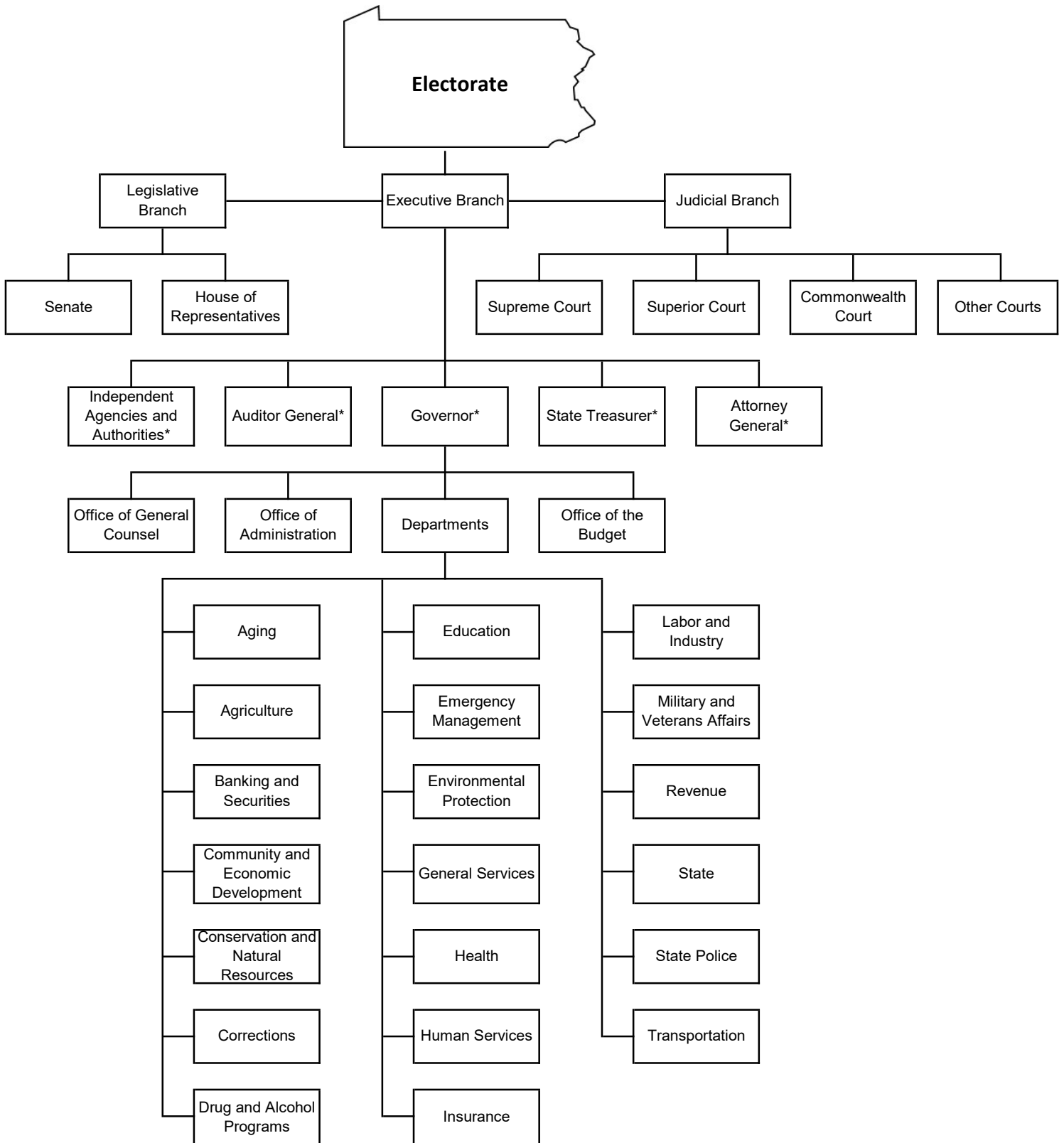


John Raymond
Executive Deputy Secretary
Office of the Budget



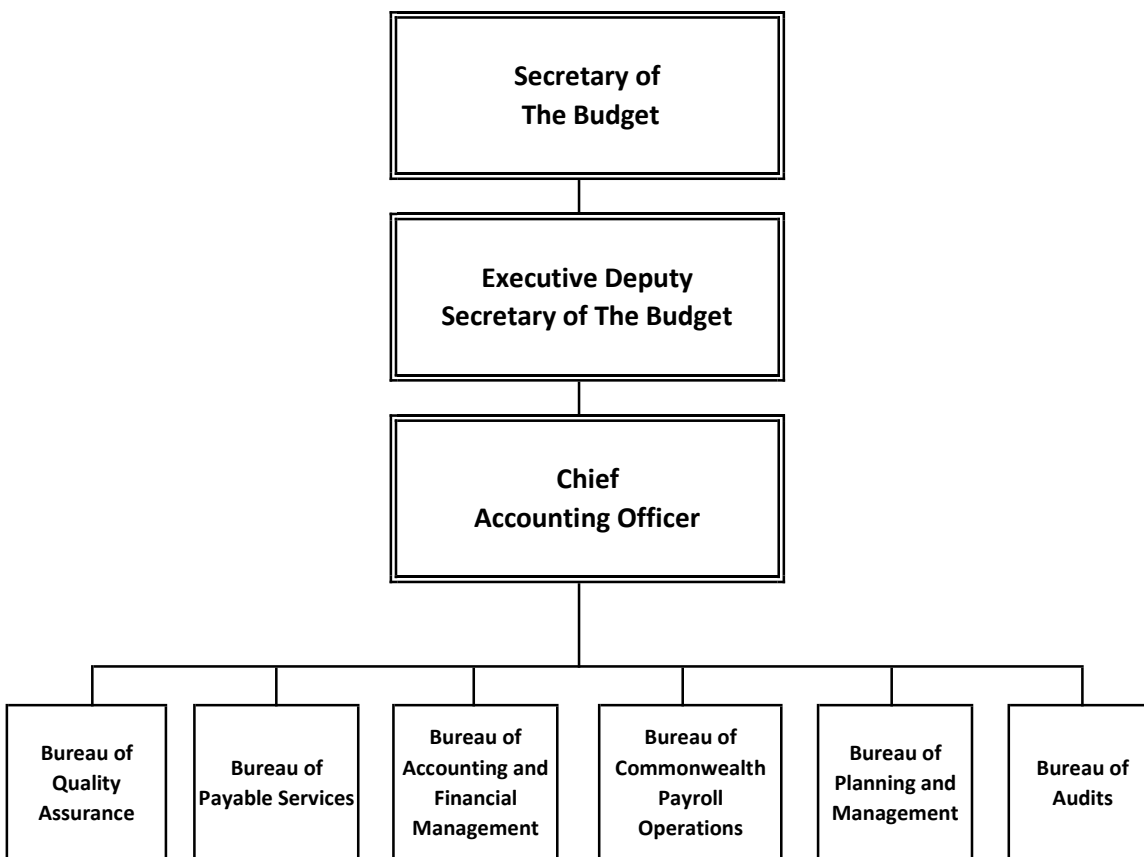
Anna Maria Kiehl, CPA
Chief Accounting Officer
Office of the Budget

**COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION CHART
June 30, 2018**



* Independently Elected

**Office of the Budget
Office of
Comptroller Operations
Organization Chart
June 30, 2018**



Principal Leadership

Commonwealth Elected and Selected Appointed Officials as of June 30, 2018

Tom Wolf, Governor

Mike Stack, Lieutenant Governor

Joe Torsella, Treasurer

Eugene DePasquale, Auditor General

Josh Shapiro, Attorney General

Randy Albright, Secretary of the Budget

Sharon Minnich, Secretary of Administration

Joseph Scarnati, President pro Tempore, Senate

Mike Turzai, Speaker of the House

Thomas Saylor, Chief Justice State Supreme Court



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For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Financial Section



Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

The Honorable Tom Wolf, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to jointly express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain funds and component units of the Commonwealth, which represent the indicated percent of total assets and deferred outflows of resources and total revenues as presented in the table below. Those financial statements were audited by other auditors, including CliftonLarsonAllen LLP and the Commonwealth of Pennsylvania's Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and component units, are based solely on the reports of the other auditors.

	Percentage Audited Separately by				Percent Audited by	
	Department of the Auditor General		CliftonLarsonAllen LLP		Other Auditors	
	Total Assets & Deferred Outflows of Resources	Total Revenue	Total Assets & Deferred Outflows of Resources	Total Revenue	Total Assets & Deferred Outflows of Resources	Total Revenue
Government-Wide						
Business-type Activities	6%	21%	20%	4%	17%	1%
Component Units	0%	0%	19%	42%	81%	57%
Fund statements						
Enterprise Funds	6%	21%	19%	4%	17%	1%
Fiduciary Funds	1%	1%	57%	57%	35%	39%
Discretely Presented Component Units	0%	0%	19%	42%	81%	57%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Pennsylvania Turnpike Commission

The Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under an Amended Lease and Funding Agreement as required under the terms of Act 44 of 2007 and Act 89 of 2013. The Pennsylvania Turnpike Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt and current lease payments (see Note 16). Our auditors' opinion was not modified with respect to this matter.

Change in Accounting Principle Resulting From Adoption of New Accounting Pronouncement

During the fiscal year ended June 30, 2018, the Commonwealth adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the Commonwealth reported a restatement for the change in accounting principle (See Note 18). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20-42, and the schedules of pension and OPEB amounts and the budgetary comparison schedules, as listed in the table of contents and notes to the required supplementary information on pages 198-207 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to

The Honorable Tom Wolf, Governor
Commonwealth of Pennsylvania

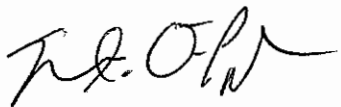
be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

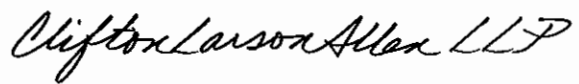
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major special revenue funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund and component unit financial statements, and the budgetary comparison schedules for budgeted non-major special revenue funds, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion based on our audit and the reports of the other auditors, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



Harrisburg, Pennsylvania
December 13, 2018



Baltimore, Maryland
December 13, 2018



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Management's Discussion and Analysis

The Management’s Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania’s (Commonwealth’s) Comprehensive Annual Financial Report (CAFR) is presented as Required Supplementary Information and provides a review and analysis of the Commonwealth’s financial statements for the fiscal year ended June 30, 2018 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 5 of this report, and with the Commonwealth’s financial statements, which follow.

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Section A: Understanding Government Financial Statements

Three questions are the focal points of the financial data in this report:

- 1) Near-term financing: Will the government be able to pay its bills (both expected and unexpected) on time?
- 2) Financial position: Is the government’s financial health improving or deteriorating?
- 3) Economic condition: Is it likely that today’s financial position will improve or deteriorate?

Government-wide Financial Statements are designed to provide a broad overview of the Commonwealth’s finances, in a manner similar to a private-sector business. All of the Commonwealth’s activities are reported in the government-wide statements except for activities accounted for in the fiduciary funds.

Fund Financial Statements focus on accountability of resources versus the government-wide financial statements’ focus on the ability to meet financial obligations.

To assist the reader in answering these questions and others, the Commonwealth presents both government-wide financial statements and fund financial statements.

	Government-wide Statements			Fund Financial Statements		
	Governmental Activities	Business-Type Activities	Discretely Presented Component Units	Governmental Funds (see note 1)	Proprietary Funds (see note 2)	Fiduciary Funds (see note 3)
Scope of Report and Fund Types	Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues	Activities financed in whole or part by fees charged to external parties for goods and services	Legally separate organizations for which the elected officials of the primary government are financially accountable or it would be misleading to exclude them	<ul style="list-style-type: none"> • General Fund • Special Revenue Funds • Debt Service Funds • Capital Projects Funds Generally used to account for tax-supported activities	<ul style="list-style-type: none"> • Enterprise Funds • Internal Service Funds Activities that focus on the determination of operating income, changes in net position (cost recovery), financial position and cash flow	<ul style="list-style-type: none"> • Agency Funds • Pension Trust Funds • Investment Trust Funds • Private-purpose Trust Funds Activities held in a trustee or agency capacity for others and which therefore cannot be used to support the government’s own programs
Required Financial Statements	<ul style="list-style-type: none"> • Statement (Stmt) of Net Position (1) • Stmt of Activities (2) 			<ul style="list-style-type: none"> • Balance Sheet (3) • Stmt of Revenues, Expenditures and Changes in Fund Balances (4) 	<ul style="list-style-type: none"> • Stmt of Net Position (1) • Stmt of Revenues, Expenses and Changes in Net Position (5) • Stmt of Cash Flows (6) 	<ul style="list-style-type: none"> • Stmt Fiduciary Net Position (7) • Stmt of Changes in Fiduciary Net Position (8)
Measurement Focus and Basis of Accounting	Economic resources measurement focus and accrual basis			Current financial resources measurement focus and modified accrual basis	Economic resources measurement focus and accrual basis	Accrual basis

- (1) **Statement of Net Position** is a government-wide or proprietary fund financial statement that reports the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources as net position, not fund balances or equity.
- (2) **Statement of Activities** is a government-wide financial statement that reports the net (expense) revenue of its individual function and the activities as a whole.
- (3) **Balance Sheet** presents a statement of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and fund balances of the government at a point in time.
- (4) **Statement of Revenues, Expenditures, and Changes in Fund Balances** presents the flows of resources in and out, as well as fund balance at the beginning and end of the financial period.
- (5) **Statement of Revenues, Expenses, and Changes in Net Position** presents the flows of resources in and out, as well as net position at the beginning and end of the financial period.
- (6) **Statement of Cash Flows** provides relevant information about cash receipts and cash payments during a period.
- (7) **Statement of Fiduciary Net Position** presents information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position for each fiduciary fund type.
- (8) **Statement of Changes in Fiduciary Net Position** presents additions and deductions in net position, as well as net position at the beginning and end of the financial period.

Note 1: Governmental Funds focus primarily on the sources, uses and balances of current financial resources and often have a budgetary focus. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the Commonwealth's programs.

Note 2: Proprietary Funds focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds. Enterprise funds are used in situations where a fund provides services primarily to external customers. Internal service funds are designed to function on a cost-reimbursement basis primarily providing benefits to other funds, departments or agencies of the Commonwealth.

Note 3: Fiduciary Funds account for resources held for the benefit of parties outside the Commonwealth and retired government employees. These activities have been excluded from the Commonwealth's government-wide financial statements because the assets are not available to finance its operations.

For further accounting policy explanations see Note 1 in the notes to the financial statements section of the CAFR.

All dollar amounts in the MD&A are stated in millions unless otherwise indicated. There may be rounding differences between amounts reported in the MD&A section and amounts reported in other sections of the CAFR.

Section B: Commonwealth's Overall Financial Activity

The following are explanations of the various categories broken out in the condensed Statement of Activities. Section C contains condensed financial information for the Commonwealth.

Government-wide Revenues

Tax revenue is the largest portion of revenue reported by the Commonwealth. The majority of the tax revenue is deposited into the General Fund, the Commonwealth's largest operating fund. Significant tax revenue is also reported in the Motor License Fund and is utilized to fund the Commonwealth's highway and bridge infrastructure improvements and enhancements. Gaming taxes provide funding for several initiatives, most notably the Commonwealth's property tax relief program.

Charges for sales and services report the sales, fees and assessments charged for lottery tickets, wine and spirits, licenses, permits and various registration requirements that support many of the Commonwealth's services and programs. The largest portion of charges for sales and services is reported by the State Lottery Fund and the Unemployment Compensation Fund; the profits from lottery ticket sales are utilized to support programs for the elderly.

Operating grants and contributions include the revenue from the federal government in the form of grants. The Department of Human Services receives the most federal funds for medical assistance and other social service programs. Other agencies that receive significant federal funds include the Department of Labor and Industry supporting the Unemployment Compensation program, Department of Transportation supporting infrastructure development, Department of Health supporting an effective public health system and the Department of Education funding basic and higher education programs.

Capital grants and contributions make up a small percentage of the Commonwealth's total revenue. The grant revenue reported here is received from the federal government and supports construction projects for transportation and military affairs.

Government-wide Expenses

Governmental Activities:

Direction and supportive services are centralized functions affecting all agencies. These services provide an administrative support system through which the goals and objectives of Commonwealth programs are attained. The Governor's Office, Executive Offices, Auditor General, Treasury, the departments of General Services and Revenue and the Legislature are some of the agencies that provide these services.

Protection of persons and property includes consumer and environmental protection, certain regulatory activities, the criminal justice system and the mitigation of the effects of disasters. The State Police, Attorney General, Department of Corrections, Public Utility Commission, Department of Military and Veterans Affairs, Pennsylvania Emergency Management Agency, and Insurance Department are some of the agencies that support these programs.

Public education programs are managed primarily by the Department of Education. The Commonwealth strives to provide a system of learning experiences and opportunities through quality basic, special, technical and higher education programs.

Health and human services programs are primarily the responsibility of the departments of Human Services, Health, Aging and Drug and Alcohol Programs with contributions by the departments of Agriculture, Labor and Industry, Military and Veterans Affairs and Revenue. Agencies include these programs to ensure access to quality medical care for all citizens, support citizens seeking self-sufficiency and maximize citizens' opportunities to participate in society.

Economic development programs invest public resources to create jobs for Commonwealth citizens. The total efforts of the Department of Community and Economic Development are devoted to these programs and are the primary source of reported expenses.

Transportation reports the expenses of the Commonwealth's road and bridge infrastructure improvements and enhancements as well as the costs to provide licensing and highway safety programs. Transportation systems are developed to serve the needs of citizens, commerce and industry and are financed through the Department of Transportation.

Recreation and cultural enrichment programs focus resources on recreational and cultural amenities, ensuring that Commonwealth citizens and visitors can explore the cultural traditions, art and history of the Commonwealth and take advantage of outdoor recreational opportunities. The programs are primarily the responsibility of the Department of Conservation and Natural Resources, the Fish and Boat Commission, the Game Commission, the Historical and Museum Commission and the Department of Education.

Interest expense is the result of Commonwealth incurred debt used to finance its capital programs, voter-approved bond referenda and certain disaster relief programs. Most long-term financing of the Commonwealth is provided by the issuance of general obligation debt.

Business-Type Activities:

State lottery reports the cost of sales and services to manage and maintain the Commonwealth's lottery program. All profits from the lottery program benefit the elderly population through the funding of programs ensuring reduced costs on prescriptions, access to public

transportation, and property tax and rent rebate programs.

State workers' insurance reports the administrative expenses to provide workers' compensation insurance to employers, including those refused policies by private insurance firms.

Tuition payment reports the administrative expenses of the Tuition Payment Fund which provides Commonwealth residents the opportunity to prepay college tuition towards future education expenses at eligible educational institutions.

Unemployment compensation reports the expenses for payments made to unemployed individuals.

Commonwealth financing reports the expenses of the Commonwealth Financing Authority. The majority of expenses are for grants that promote the health, safety, employment, business opportunities and economic activity of the Commonwealth.

Liquor control expenses cover all costs associated with the operation and administration of the Liquor Store System and enforcement of the Liquor Code.

Economic development and other expenses reported include, among other things, those for a variety of economic development programs and the Philadelphia Regional Port Authority.

Section C: Condensed Financial Information

The Commonwealth was required to implement Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, by June 30, 2018. The beginning net position on the Government-wide Statement of Activities has been restated to reflect the reporting changes required in the implementation of this new accounting standard. The standard requires that the full effect of the unfunded Postemployment Benefits Other Than Pensions (OPEB) liability be recognized on the financial statements, as well as a recognition of OPEB related deferred inflows and outflows of resources. It is important to note that while the standard changes the way the Commonwealth reports their OPEB related items, these OPEB liabilities and deferred items existed prior to the implementation of the new standard. The new standard simply changes the way these items are now reported in the financial statements. The effects of the restatement are not displayed within the MD&A tables in Sections C or D. Please refer to the full financial statements and Note 18 in the notes to the financial statements section of the CAFR for restatement information related to GASB Statement No. 75, and to Note 10 in the notes to the financial statements section of the CAFR for additional OPEB related disclosures.

Government-wide Statement of Net Position as of June 30, 2018 and 2017

(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Assets:						
Cash and investments.....	\$ 11,116	\$ 8,972	\$ 8,436	\$ 7,498	\$ 19,552	\$ 16,470
Capital assets (net).....	38,841	37,466	610	567	39,451	38,033
All other assets.....	10,896	10,932	1,687	1,693	12,583	12,625
Total assets.....	60,853	57,370	10,733	9,758	71,586	67,128
Total deferred outflows.....	2,705	3,457	127	151	2,832	3,608
Liabilities:						
Accounts payable.....	8,770	8,768	855	783	9,625	9,551
All other current liabilities.....	4,605	4,146	1,222	1,226	5,827	5,372
Bonds payable, non-current.....	12,609	12,223	4,847	3,459	17,456	15,682
All other long-term liabilities.....	41,819	22,429	4,555	3,687	46,374	26,116
Total liabilities.....	67,803	47,566	11,479	9,155	79,282	56,721
Total deferred inflows.....	3,698	832	156	29	3,854	861
Net position:						
Net investment in capital assets.....	32,976	31,541	601	556	33,577	32,097
Restricted.....	1,973	2,164	3,662	2,444	5,635	4,608
Unrestricted.....	(42,892)	(21,276)	(5,038)	(2,275)	(47,930)	(23,551)
Total net position.....	\$ (7,943)	\$ 12,429	\$ (775)	\$ 725	\$ (8,718)	\$ 13,154

Statement of Net Position Variance Analysis Year-Over-Year
(A discussion of significant activities)

Cash and investments net increase:

- Governmental Activities total cash and investments increased \$2,144 largely from an increase in the General Fund of \$1,544 due significantly to the receipt of bond proceeds from the Commonwealth Financing Authority (CFA) and an increase in the Capital Facilities Fund of \$527 primarily from remaining bond proceeds.
- Business-Type Activities total cash and investments increased \$938 primarily due to the Unemployment Compensation Fund's cash and investment increase of \$679 related to decreased benefit payments from continued low unemployment throughout the Commonwealth. Additional significant increases were realized by the Tuition Payment Fund, the State Workers' Insurance Fund, the State Stores Fund and the State Lottery Fund of \$54, \$48, \$29, and \$19, respectively. See Section D for further information.

Capital assets net increase:

- The \$1,376 increase in Governmental Activities Capital Assets was due to the Commonwealth's continued goal to invest in transportation infrastructure throughout Pennsylvania. The Motor License Fund's capital assets net of depreciation increased \$1,221 over the prior year.

Deferred outflows of resources net decrease:

The total decrease of \$776 is primarily the result of fiscal year 2017 Pennsylvania State Employees' Retirement System' (SERS) investments earning a 15.1% return significantly above the 7.25% projected return. This caused the difference between projected and actual investment earnings to change from a deferred outflow of resources in the prior year to a deferred inflow of resources in the current year for pension. This decrease was partially offset by the implementation of GASB Statement No. 75 in the current year which established and thereby increased OPEB deferred outflows of resources.

- Governmental Activities decreased \$752.
- Business-Type Activities decreased \$24.

All other current liabilities net increase: (Items reported in this category include tax refunds payable, due to other governments and political subdivisions, bonds payable and other current liabilities.)

Governmental Activities increase of \$459 is largely attributable to the implementation of GASB Statement No. 75 in the current year which established new standards for measuring OPEB liabilities resulting in a \$357 increase. Additionally, amounts owed to political subdivisions in the General Fund increased \$246 primarily due to increased contributions for school employee pension costs and education subsidies. These increases were reduced by a decrease in tax refunds payable of \$134.

Bonds payable, non-current net increase:

- Governmental Activities non-current bonds payable increased \$386 primarily because of new general obligation bond issuance of \$1,247 for capital projects, offset by a bond refunding of \$970 and the portion of bonds payable that became current during the year.
- Business-Type Activities increased \$1,388 largely as a result of two new revenue bond issuances by the CFA totaling \$1,900. The PlanCon bonds and the Tobacco Master Settlement bonds were issued for the respective purposes of funding reimbursements to school districts for construction and reconstruction projects (PlanCon) and for providing budget relief. These were offset by reductions to bond liabilities of increased early bond redemptions by the Unemployment Compensation Fund \$498 and the portion of bonds payable that became current during the year.

All other long-term liabilities net increase: (Liabilities reported in this category are due in periods beyond twelve months from the close of the fiscal year and will be repaid with future resources. Reported items include compensated absences, self-insurance, net pension liability, OPEB and other long-term liabilities.)

- Governmental Activities increased \$19,390 largely due to the implementation of GASB Statement No. 75 in the current year, which established new standards for measuring OPEB liabilities, resulting in a \$20,803 increase. This increase was partially offset by a \$1,571 decrease to net pension liability which resulted primarily due to actual investment earnings surpassing projected earnings during 2017.
- Business-Type Activities increased \$868 largely due to the implementation of GASB Statement No. 75 in the current year, which established new standards for measuring OPEB liabilities, resulting in a \$940 increase. This increase was partially offset by a \$47

decrease to net pension liability which resulted primarily due to actual investment earnings surpassing projected earnings during 2017.

Deferred inflows of resources net increase:

The total increase of \$2,993 is primarily due to the implementation of GASB Statement No. 75 in the current fiscal year which established new standards for measuring OPEB deferred inflows of resources. Additionally, the SERS' difference between projected and actual investment earnings changed from a deferred outflow of resources in the prior year to a deferred inflow of resources in the current year for pension.

- Governmental Activities increased \$2,866.
- Business-Type Activities increased \$127.

Net position is one way of measuring the health of the Commonwealth's finances. An overall deficit is reported

for both Governmental Activities and Business-Type Activities.

- The Governmental Activities net position decreased \$20,372 overall, which is directly attributable to the increase in OPEB liabilities and related deferred flows due to the implementation of GASB Statement No. 75. The unrestricted net position decreased \$21,616 and the restricted net position decreased by \$190. These decreases were offset by an increase of the net investment in capital assets of \$1,435.
- Business-Type Activities net position decreased \$1,500 overall, also significantly due to changes in OPEB as well as the additional bond issuances. The unrestricted net position decreased \$2,763, which was offset by increases in restricted net position of \$1,218 and net investment in capital assets of \$45.

Statement of Activities for the Fiscal Years Ended June 30, 2018 and 2017
(Amounts in millions)

Revenues:	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues						
Charges for sales and services.....	\$ 7,110	\$ 6,631	\$ 9,717	\$ 9,603	\$ 16,827	\$ 16,234
Operating grants and contributions.....	29,459	30,208	329	361	29,788	30,569
Capital grants and contributions.....	31	78	-	-	31	78
Total program revenues.....	36,600	36,917	10,046	9,964	46,646	46,881
General revenues: taxes and investment income.....	37,109	36,108	-	-	37,109	36,108
Total revenues.....	73,709	73,025	10,046	9,964	83,755	82,989
Expenses:						
Governmental Activities						
Direction and supportive services.....	1,580	1,255	-	-	1,580	1,255
Protection of persons and property.....	6,839	7,012	-	-	6,839	7,012
Public education.....	16,517	16,427	-	-	16,517	16,427
Health and human services.....	40,315	41,335	-	-	40,315	41,335
Economic development.....	931	1,007	-	-	931	1,007
Transportation.....	6,193	6,366	-	-	6,193	6,366
Recreation and cultural enrichment.....	597	626	-	-	597	626
Interest.....	521	436	-	-	521	436
Business-Type Activities						
State lottery.....	-	-	4,090	3,982	4,090	3,982
State workers' insurance.....	-	-	168	221	168	221
Tuition payment.....	-	-	255	336	255	336
Unemployment compensation.....	-	-	1,912	2,089	1,912	2,089
Commonwealth financing.....	-	-	253	218	253	218
Liquor control.....	-	-	1,966	1,947	1,966	1,947
Economic development and other.....	-	-	55	52	55	52
Total expenses.....	73,493	74,464	8,699	8,845	82,192	83,309
Excess/(deficiency) before transfers and special items.....	216	(1,439)	1,347	1,119	1,563	(320)
Transfers.....	1,835	834	(1,835)	(834)	-	-
Increase (decrease) in net position *.....	\$ 2,051	\$ (605)	\$ (488)	\$ 285	\$ 1,563	\$ (320)

* The effects of the restatement for GASB No. 75 are not displayed.

Statement of Activities Variance Analysis Year-Over-Year
(A discussion of significant activities)

Revenues**Charges for sales and services** net increase:

- Governmental Activities increased \$479 largely related to Act 92 of 2015's creation of Human Services new assessments on managed care organizations. Further information is provided in Section D's General Fund analysis.
- Charges for sales and services is the primary revenue category for Business-Type activities. The revenues include among many things lottery sales, wine & spirit sales, and unemployment compensation revenues. The State Lottery and State Stores Funds increased \$210 and \$70, which was offset by a decrease in the Unemployment Compensation Fund of \$162. Overall the category increased \$114. Further information is provided in the individual fund analysis in Section D.

Operating grants and contributions net decrease:

- The majority of the decrease was the Governmental Activities decrease of \$749, primarily as a result of reductions in the federal funding of Medicaid expansion. The expansion was 100% federally funded through December 31, 2016, and then reduced to 95% starting January 1, 2017, and 94% starting in January 1, 2018.
- Business-Type Activities decreased \$32. The most significant cause was a decrease of investment income in the Tuition Payment Fund of \$45 offset by the State Workers' Insurance Fund experiencing \$22 more of investment income.

More information is provided in the individual fund analysis in Section D.

Taxes and investment income net increase of \$1,001 in Governmental Activities is primarily due to increased personal income tax of \$738 as well as increases in sales and use, corporation, and inheritance taxes. Additional details are provided in Section D's General Fund analysis.

Expenses: Governmental Activities

Direction and supportive services increased \$325 primarily due to increased expenses related to OPEB and the legislature.

Health and human services expenses decreased \$1,020 primarily related to drug rebates, a one-year moratorium on health insurance provider fees, and decreased personnel expenses and associated long-term benefit liabilities. Additional details related health and human services can be found in the General Fund analysis.

Expenses: Business-Type Activities

State Lottery program expenses increased \$108 due primarily to increases in field paid prizes and payments of commissions to retailers. Refer to the State Lottery Fund analysis in Section D for additional detail.

Unemployment Compensation (UC) program expenses decreased \$177 due to continued low unemployment reducing the need for benefit payments. Refer to the Unemployment Compensation Fund analysis in Section D for additional detail.

Transfers

Transfers between the Governmental Activities and Business-Type Activities increased \$1,001, primarily caused by the transfer of the CFA's Tobacco Master Settlement revenue bond proceeds and the PlanCon bond proceeds.

Section D: Individual Funds Analysis

General Fund Assets, Liabilities, Deferred Inflows and Fund Balance
 Condensed, comparative, financial information (amounts in millions)

The General Fund, the Commonwealth's largest fund, accounts for approximately 80% of the total governmental fund type revenues and other financing sources and 80% of the total governmental fund type expenditures and

other financing uses. The General Fund collects approximately 84% of the total tax revenues and is the primary funding source for most Commonwealth expenditures.

	2018	2017
Assets:		
Cash and investments.....	\$ 4,376	\$ 2,922
Receivables, net.....	4,978	4,952
Due from other funds/governments/advances/other.....	4,824	4,868
Total assets.....	\$ 14,178	\$ 12,742
Liabilities:		
Accounts payable and tax refunds payable.....	\$ 8,115	\$ 8,274
Securities lending obligations.....	2	7
Due to other funds/governments/advances/other.....	2,378	2,245
Unearned revenue.....	18	23
Total liabilities.....	10,513	10,549
Total deferred Inflows of resources.....	2,851	2,891
Fund Balance:		
Total fund balance.....	814	(698)
Total liabilities, deferred inflows of resources and fund balance.....	\$ 14,178	\$ 12,742

Cash and investments increased \$1,454 primarily due to the \$1,342 increase in net other financing sources. The Commonwealth Financing Authority (CFA) transferred \$404 PlanCon bond proceeds authorized under Act 25 of 2016, which represented a \$331 reduction from the prior fiscal year, and \$1,500 in proceeds from its issuance of Tobacco Master Settlement Payment Revenue Bonds. In addition, the Commonwealth received \$200 in proceeds from entering into a long-term financing agreement relative to the Pennsylvania Farm Show and Expo Center. Net increases in other financing sources, coupled with revenues, exceeded the uses of cash and investments during the fiscal year.

Receivables, net increased \$26 primarily due to a \$172 increase in Medicaid drug rebate refunds, partially offset by a combined \$74 decrease in Third Party Liability (TPL) refunds, Rite Aid and PA Pharmacists Association refunds, and a \$77 decrease in taxes receivable. Decreases in cigarette and sales and use taxes receivable of \$6 and \$122, respectively, were partially offset by increases in other tax receivable categories.

Accounts payable and tax refunds payable decreased \$159. The decrease is primarily due to a \$135 net reduction in tax refunds payable, which is mostly

attributable to revised sampling methodology to more accurately report corporation tax refunds payable.

Due to other funds/governments/advances/other increased \$133 primarily due to a \$239 increase in amounts owed to political subdivisions offset by a \$103 decrease in other liabilities. Amounts owed to political subdivisions increased primarily due to increased contributions for school employee pension costs and education subsidies, as well as a change in methodology for calculating monies owed for county child welfare services. Other liabilities decreased \$103 as a greater amount of escheated property claims were paid during the fiscal year.

Deferred inflows of resources decreased \$40 due to decreases in unavailable revenue. Net unavailable tax revenue decreased \$97; most of the change pertained to an \$85 decrease in the sales and use taxes category.

Total fund balance increased \$1,512 primarily due to increases in tax revenues net of refunds and transfers in. Discussion of these changes follows in the analysis of General Fund Revenues, Expenditures and Changes in Fund Balance.

General Fund Revenues, Expenditures and Changes in Fund Balance

Condensed, comparative, financial information (amounts in millions)

	2018	2017
Revenues:		
Taxes, net of refunds		
Personal income.....	\$ 12,823	\$ 12,096
Sales and use.....	10,325	9,955
Corporation.....	4,522	4,313
Inheritance.....	1,006	918
Cigarette.....	1,338	1,381
Realty transfer.....	513	477
Gaming.....	124	122
Other.....	481	811
Total taxes, net of refunds.....	31,132	30,073
Intergovernmental.....	26,477	26,965
Charges for sales and services.....	2,991	2,749
Licenses/fees/investment/other income.....	1,096	952
Total revenues.....	61,696	60,739
Expenditures:		
Direction and supportive services.....	908	670
Protection of persons and property.....	4,515	4,540
Health and human services.....	39,447	39,689
Public education.....	15,832	15,706
Recreation and cultural enrichment.....	309	306
Economic development.....	406	487
Transportation.....	63	28
Capital outlay.....	100	158
Other expenditures.....	28	23
Total expenditures.....	61,608	61,607
Revenues over expenditures.....	88	(868)
Other financing sources (uses):		
Transfers in.....	2,460	1,343
Transfers out.....	(1,253)	(1,263)
Other financing agreements.....	217	-
Net other financing sources.....	1,424	80
Net change in fund balance.....	\$ 1,512	\$ (788)

Total taxes, net of refunds increased \$1,059 primarily due to a combined \$1,394 increase in personal income, sales and use, corporation, and inheritance taxes offset by a \$330 decrease in other taxes. Approximately half of the increase, \$727 for personal income tax, is attributed to taxpayer anticipation of changes to federal tax law in 2017 and behavior changes following its enactment, as well as increased economic security for employers following the federal tax changes. Other taxes decreased primarily due to the enactment of Act 92 of 2015, which prescribed assessments, rather than gross receipts taxes, on Medicaid managed care organizations. \$352 in gross receipts taxes were reported in the previous fiscal year for these organizations.

Intergovernmental revenues decreased \$488 primarily due to a \$576 decrease in federal revenues collected by the Department of Human Services, which was mainly a

result of the reduction in the federal participation rate related to Medicaid expansion. Medicaid was a 100% federally funded program through December 31, 2016 and 95% federally funded beginning January 1, 2017. Beginning on January 1, 2018 the federal participation rate decreased to 94%. Additional information is included in the discussion of health and human services expenditures.

Charges for sales and services increased \$242 primarily due to the enactment of Act 92 of 2015 that amended the Public Welfare Code. Act 92 repealed gross receipts taxes on Medicaid managed care organizations and established monthly, per member assessments. The per member assessment increased twice during the fiscal year, rising from \$13.48 to \$15.07 effective July 1, 2017 and to \$19.87 effective January 1, 2018. Additionally, gross receipts

taxes represented a portion of the revenues received from these organizations during the previous fiscal year.

Licenses/fees/investment/other income increased \$144. Act 42 of 2017 authorized the establishment of ten Category 4 or "mini" casinos in the Commonwealth. Five auctions held during the fiscal year for Category 4 licenses garnered \$128 in fees. Additionally, a \$50 million fee was received for the licensure of an additional Category 2 or "stand alone" casino. Increases in licenses and fees were partially offset by decreases in other income; this decrease primarily pertained to a reduction in the amount of unclaimed property revenues from non-financial institution deposits.

Health and human services accounts for 64% of total general fund expenditures for the year. The decrease of \$242 or 0.6% was due significantly to a federal moratorium on health insurance provider fees. The moratorium was only for one year and was designed to assist insurers with stabilizing plan rates. Additionally, decreases in personnel costs and reductions to expenditures from drug rebates were partially offset by increased spending for the Commonwealth's response to the opioid crisis. Even though overall health and human services expenditures decreased, enrollment in Medicaid increased by approximately 38,000 persons from July 2017 to June 2018, which represents a 1.33% increase in enrollment.

Public education accounts for 26% of total general fund expenditures. The increase of \$126 or 0.8% is largely due to funding increases for various programs, in particular basic education, pre-kindergarten, special education, and food and nutrition, as well as increased contributions for school employee pension costs. The increases were partially offset by a \$331 reduction in PlanCon school construction project costs financed by the transfer of bond proceeds from the CFA under Act 25 of 2016.

Transfers in increased \$1,117 primarily due to the transfer of \$1,500 in bond proceeds by the CFA from its issuance of Tobacco Master Settlement Revenue Bonds, offset by a \$331 reduction in PlanCon bond proceeds transferred by the CFA under Act 25 of 2016.

Other financing agreements increased \$217 from long-term financing agreement.

Fund Balance increased \$1,512 primarily due to the transfer in of bond proceeds from the CFA. Additionally, while total revenues increased year over year, expenditures slightly decreased creating a net benefit of \$95.

Motor License Fund

Condensed, comparative, financial information (amounts in millions)

Description	2018	2017
Cash and investments.....	\$ 1,184	\$ 1,234
Other assets.....	707	732
Total assets.....	\$ 1,891	\$ 1,966
Accounts payable.....	\$ 726	\$ 759
Securities lending obligations.....	1	20
Other liabilities.....	161	178
Total liabilities.....	888	957
Total fund balance.....	1,003	1,009
Total liabilities and fund balance.....	\$ 1,891	\$ 1,966
Tax revenues.....	\$ 3,811	\$ 3,548
Licenses and fees.....	1,033	1,006
Intergovernmental.....	1,877	1,896
Other revenues.....	122	139
Total revenues.....	6,843	6,589
Direction and supportive services.....	36	39
Protection of persons and property.....	1,028	964
Transportation.....	2,702	2,912
Capital outlay.....	2,990	2,633
Other expenditures.....	8	7
Total expenditures.....	6,764	6,555
Net other financing sources (uses).....	(85)	90
Net change in fund balances.....	\$ (6)	\$ 124

Fund Description: The Motor License Fund receives revenues from various taxes, fees, federal aid and aid from various political entities. The Motor License Fund incurs expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

Cash and investments decreased \$50 which is largely attributable to corresponding decreases in accounts payable and securities lending obligations.

Tax revenues increased \$263 primarily due to the increase in the liquid fuels tax rate pursuant to Act 89 of 2013. The average rate for gasoline increased from 54.3 cents per gallon to 57.9 cents per gallon. The average rate for diesel fuel increased from 69.4 cents per gallon to 74.4 cents per gallon.

Protection of persons and property expenditures increased by \$64 largely due to increases in salaries and professional services, as well as increased payments for grants made to governmental subrecipients.

Transportation and **Capital outlay** net expenditures increased by \$147. Although this was the net result of many factors, a major influence was the increase in payments for both engineering consultants and capital road construction. This upsurge is largely due to the growing number of projects resulting from the increased funding under Act 89.

The final transfer from ACT 89 state bridge bonds occurred during the prior year in the amount of \$206. The lack of the transfer this year is the main reason for the \$175 net decrease in **Net other financing sources (uses)**.

Unemployment Compensation Fund

Condensed, comparative, financial information (amounts in millions)

Description	2018	2017
Cash and investments.....	\$ 2,811	\$ 2,132
Unemployment assessments receivable.....	655	744
Other assets.....	564	552
Total assets.....	4,030	3,428
Total deferred outflows of resources.....	3	-
Accounts payable.....	60	73
Other liabilities.....	1,111	1,609
Total liabilities.....	1,171	1,682
Total deferred inflows of resources.....	1	-
Total net position.....	\$ 2,861	\$ 1,746
Total operating revenues: Sales and services.....	\$ 2,945	\$ 3,107
Total operating expenses: Cost of sales and services.....	1,891	2,059
Operating income.....	1,054	1,048
Nonoperating revenues.....	68	65
Income before transfers.....	1,122	1,113
Transfers out.....	(3)	(52)
Increase in net position *.....	\$ 1,119	\$ 1,061

* The effects of the restatement for GASB No. 75 are not displayed.

Fund Description: The Unemployment Compensation (UC) Fund collects employer assessments for unemployment compensation and transfers the assessments to the federal government for deposit in the UC Trust Fund. These funds are drawn down to pay unemployment compensation payments to claimants as needed.

Cash and investments increased \$679 primarily due to the continued low unemployment rate and the solvency of the Unemployment Insurance Trust account. Current year contributions exceeded benefit payments. In addition, there was an overall decrease in benefit payments over the prior year.

Unemployment assessments receivable decreased \$89 due to an overall decrease in benefits. Because of this decrease in benefit payments there are fewer delinquent accounts to collect.

Other liabilities decreased \$498 as a result of UC bond redemptions throughout the year.

Sales and services decreased \$162 primarily due to decreased contributions received from employers due to the improving economy and also related to significant employer refunds made at the beginning of the fiscal year.

Cost of sales and services expense decreased \$168 primarily due to the overall decline in unemployment benefit payments and claims correlating to a decreased unemployment rate.

State Workers' Insurance Fund (SWIF)

For the Fiscal Years Ended December 31
Condensed, comparative, financial information (amounts in millions)

Description	2017	2016
Cash and short-term investments.....	\$ 149	\$ 117
Long-term investments.....	1,369	1,353
Other assets.....	64	71
Total assets.....	1,582	1,541
Total deferred outflows of resources.....	5	8
Securities lending obligations.....	91	53
Unearned revenue.....	64	68
Insurance loss liability.....	1,497	1,563
Other liabilities.....	144	97
Total liabilities.....	1,796	1,781
Total deferred inflows of resources.....	10	2
Total net position.....	\$ (219)	\$ (234)
Total operating revenues: Sales and services.....	\$ 166	\$ 184
Total operating expenses: Cost of sales and services.....	164	217
Operating gain (loss).....	2	(33)
Investment income.....	81	58
Investment expense.....	(4)	(4)
Net nonoperating revenue.....	77	54
Increase in net position *.....	\$ 79	\$ 21

* The effects of the restatement for GASB No. 75 are not displayed.

Fund Description: The SWIF operates for the purpose of providing workers' compensation insurance to employers, including those refused policies by private insurance firms.

Insurance loss liability decreased \$66 due to a reduction in the current portion of the liability attributable to a continued effort for SWIF to use the Compromise and Release (C&R) program. In PA Workers' Compensation, any case can be resolved by an agreement between the injured worker and their employer/insurance carrier called a C&R agreement.

Cost of sales and services decreased \$53 due to a decrease in losses paid and a decrease in underwriting expenses paid due to less policies in force. This decrease is attributable to a continued effort for SWIF to use the Compromise and Release (C&R) program.

Investment income includes the cumulative effect of changes in Net Asset Value of SWIF investments and realized gain/loss on sales of investments. Due to positive market conditions, investment income increased \$23.

State Lottery Fund

Condensed, comparative, financial information (amounts in millions)

Description	2018	2017
Cash and short-term investments.....	\$ 181	\$ 162
Other assets.....	88	85
Total assets.....	269	247
Total deferred outflows of resources.....	11	14
Accounts payable.....	384	379
Other liabilities.....	276	202
Total liabilities.....	660	581
Total deferred inflows of resources.....	14	3
Total net position.....	\$ (394)	\$ (323)
Total operating revenues: Sales and services.....	\$ 4,213	\$ 4,003
Cost of sales and services.....	4,084	3,978
Other expenses.....	6	4
Total operating expenses.....	4,090	3,982
Operating income.....	123	21
Nonoperating revenues, net.....	3	4
Income before transfers.....	126	25
Transfers in.....	146	148
Transfers out.....	(251)	(265)
Transfers, net.....	(105)	(117)
Increase (decrease) in net position *.....	\$ 21	\$ (92)

* The effects of the restatement for GASB No. 75 are not displayed.

Fund Description: The State Lottery Fund receives the proceeds of all lottery sales and designates all of its net proceeds to programs that benefit older Pennsylvanians. These programs include shared rides and free transit, property tax and rent rebates, medical assistance for long-term care, the Pharmaceutical Assistance Contract for the Elderly (PACE) which provides assistance for the payment of prescription drugs, and PENNCARE which provides a variety of community-based and in-home services, such as home health care; personal care; health support services such as housekeeping, shopping assistance, laundry and mending; respite care (caregiver relief); transportation and other routine household chores as necessary to maintain a consumer's health, safety and ability to remain in the home; and home-delivered meals prepared at a central location and delivered to a person's home.

Other liabilities increased \$74, mainly attributed to the implementation of GASB Statement No. 75 in the current fiscal year, which established new standards for measuring and recognizing liabilities, deferred outflows of

resources, deferred inflows of resources, and expenses related to OPEB.

Total operating revenues: Sales and services increased \$210, largely attributed to online ticket sales revenues increasing by \$102 due to a peak PowerBall jackpot of \$759. Scratch-Off sales revenues also experienced an increase of \$98 due to the introduction of more high value tickets. In May 2018, the Pennsylvania Lottery created a new category of games called iLottery, with current year net sales revenues totaling \$1.8.

Total operating expenses increased \$108 primarily due to an increase of \$13 in payments of commissions to retailers and an increase of \$110 in field paid prizes. Legal services/fees decreased by \$12 due to the payment for the Property Tax and Rent Rebate Program Settlement Agreement in 2016.

Tuition Payment Fund

Condensed, comparative, financial information (amounts in millions)

Description	2018	2017
Cash and short-term investments.....	\$ 189	\$ 147
Long-term investments.....	1,833	1,821
Other assets.....	109	8
Total assets.....	2,131	1,976
Securities lending obligations.....	15	42
Tuition benefits payable.....	1,644	1,641
Other liabilities.....	90	10
Total liabilities.....	1,749	1,693
Total net position.....	\$ 382	\$ 283
Total operating revenues: Sales and services.....	\$ 206	\$ 207
Total operating expenses: Cost of sales and services.....	253	334
Operating loss.....	(47)	(127)
Nonoperating revenues, net.....	146	192
Increase in net position.....	\$ 99	\$ 65

Fund Description: The Tuition Payment Fund is administered by the Tuition Account Guaranteed Savings Program Bureau, an office within the Commonwealth Treasury Department. The Fund provides Commonwealth residents the opportunity to prepay college tuition towards future education expenses at eligible educational institutions. An eligible educational institution is defined by the Internal Revenue Code. Commonwealth-owned and related universities and community colleges participate in the program. In addition, private institutions, which are defined as any private or out-of-state public post-secondary educational institution, are considered eligible for the program.

Total assets increased \$155 attributable primarily to increased investment income (net of expenses) of \$146.

Total liabilities increased \$56. The increase was mostly attributed to a larger amount of unsettled trades at year end compared to the prior year as the portfolio was continuing to shift to fixed income securities/managers.

Operating loss decreased \$80 largely due to a decrease in tuition benefit expenses. Tuition benefit expenses decreased to \$226 from \$311.

Non-operating revenues, net decreased \$46 largely due changing market conditions and the reallocation of portfolio assets to fixed income and mutual fund/exchange traded funds.

Net position increased \$99 over the prior year. At \$382, the plan is currently 122% funded.

State Stores Fund

Condensed, comparative, financial information (amounts in millions)

Description	2018	2017
Cash and investments.....	\$ 258	\$ 229
Inventory.....	259	255
Other assets.....	31	43
Total assets.....	548	527
Total deferred outflows of resources.....	97	115
Accounts payable.....	299	296
Pension and OPEB liabilities.....	1,334	636
Other liabilities.....	124	91
Total liabilities.....	1,757	1,023
Total deferred inflows of resources.....	118	22
Total net position.....	\$ (1,230)	\$ (403)
Total operating revenues: Sales and services.....	\$ 2,117	\$ 2,047
Cost of sales and services.....	1,955	1,936
Other expenses.....	10	11
Total operating expenses.....	1,965	1,947
Operating income.....	152	100
Nonoperating revenues, net.....	3	2
Income before transfers.....	155	102
Transfers out.....	(188)	(219)
Decrease in net position *.....	\$ (33)	\$ (117)

* The effects of the restatement for GASB No. 75 are not displayed.

Fund Description: The State Stores Fund serves as the operating fund for the Pennsylvania Liquor Control Board (PLCB). With over 600 state run stores throughout the Commonwealth, the PLCB generates revenue from the sale of wine and spirits, lottery commissions, various licensing fees, and fines. In addition, Act 39 of 2016 allows the PLCB to be a wine wholesaler to holders of wine expanded permits which allows the convenience of wine sales to take place at private retailers. Profits from the State Stores Fund are used to fund the Pennsylvania State Police for their liquor law enforcement authority; support the Department of Drug and Alcohol Programs which provides funding to several local governments to offer drug and alcohol education; and to provide additional funding to the General Fund.

Cash and investments increased \$29 primarily due to a reduction of the legislatively mandated transfers to the General Fund by \$31.

Pension and OPEB liabilities increased \$698 due to the implementation of GASB Statement No. 75 in the current fiscal year, which established new standards for

measuring OPEB liabilities. This increase was partially offset by a decrease to net pension liability which resulted primarily due to actual investment earnings surpassing projected earnings during 2017.

Total deferred inflows of resources increased \$96 primarily due to the implementation of GASB Statement No. 75 in the current fiscal year.

Sales and services increased \$70 which is attributed to legislation changes of Acts 39, 85, and 166 of 2016. The liquor reforms allowed for the adoption of flexible pricing, expanded wine sales to licensed retailers, auction of expired restaurant licenses, expanded store hours of operations on Sundays and holidays, authority to sell Pennsylvania Lottery tickets, and the authority for licensed wine producers to ship directly to residents.

Transfers out decreased \$31 due to a reduction in contributions to the General Fund from \$216 to \$185. Contributions to the General Fund support commonwealth-wide operations.

Commonwealth Financing Authority

Condensed, comparative, financial information (amounts in millions)

Description	2018	2017
Current assets.....	\$ 940	\$ 830
Long-term assets.....	270	275
Total assets.....	1,210	1,105
Total deferred outflows of resources.....	2	2
Current liabilities.....	95	85
Long-term liabilities.....	4,195	2,260
Total liabilities.....	4,290	2,345
Total net position.....	\$ (3,078)	\$ (1,238)
Operating revenues, net of uncollectibles.....	\$ 9	\$ 6
Operating expenses.....	87	110
Operating loss.....	(78)	(104)
Nonoperating expenses, net.....	(141)	(96)
Loss before transfers.....	(219)	(200)
Transfers, net.....	(1,621)	(494)
Decrease in net position.....	\$ (1,840)	\$ (694)

Fund Description: The purpose of the Commonwealth Financing Authority (CFA) is to provide financial assistance through bond issuance proceeds distributed in the form of loans, loan guarantees, grants and private equity participating loans to promote the health, safety, employment, business opportunities and economic activity of the Commonwealth.

CFA is a blended component unit of the Commonwealth, and since inception, the CFA has issued 16 revenue bonds totaling \$6.5 billion to promote economic growth in the Commonwealth. Payments of principal and interest due on outstanding debt are appropriated and transferred from the primary government annually.

Total assets increased \$105 primarily due to unspent 2018 bond proceeds and timing differences between the transfer of funds from the Commonwealth to CFA year over year.

Total liabilities increased \$1,945 because of two new bonds issued in 2018, including \$1,487 for the Tobacco Master Settlement Bonds. This was only partially offset by principal payments which reduced the long-term debt

outstanding on existing bonds. As of June 30, 2018, long-term debt, net of current portion and unamortized bond premium and discount, stood at \$4,177.

Operating expenses decreased \$23 due primarily to a reduction in grant expense.

Nonoperating expenses increased \$45 overall because of increases in bond interest expense and bond issuance costs.

Transfers, net decreased \$1,127 primarily due to the transfer of \$1,914 in 2018 bond proceeds from CFA to the Commonwealth General Fund and to the Department of Education for the purposes of funding reimbursements to school districts for construction and reconstruction projects (PlanCon) and providing budget relief.

Net position decreased by \$1,840 primarily due to the transfer of 2018 bond proceeds to the Commonwealth. CFA's business purpose may result in continued losses from operations due to the disbursement of grant awards and transfer of bond proceeds to promote economic growth.

Section E: Budget Analysis Overview

General Fund Budgetary Basis
Comparison between original budget and final budget
 (Amounts in millions)

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2018 is presented immediately following the Notes to the Financial Statements section of the CAFR. In the final budget, state program revenues were adjusted to the revised revenue estimates anticipated to be received by the end of the fiscal year, and were anticipated to be sufficient to fund all 2017-2018 original and supplemental appropriation requests.

Final federal revenues and corresponding expenditures were \$273 more than originally budgeted primarily due to increases of \$275 in the Department of Human Services and \$7 combined in the Emergency Management Agency and the Executive Offices offset by a decreases of \$8 in the Office of the Attorney General, and a combined \$1 in the Departments of Education and Environmental Protection.

The difference in total state program revenues from the original to the final budget was due to an increase of \$25 in tax revenues, an increase in nontax revenues of \$23, and a decrease of \$46 in refunds, resulting in a net increase of \$94.

General Fund Budgetary Basis
Comparison between final budgeted and actual results
 (Amounts in millions)

In the actual budgetary basis, state program revenues were adjusted to actual revenues received by the fiscal year end. State program revenues sufficiently funded all 2017-2018 original state appropriations. Supplemental appropriations passed on June 22, 2018 by Act 1A resulted in a \$7 reduction to state appropriations and a \$275 increase in federal appropriations, with supplemental appropriations effective as of the fiscal year ended June 30, 2018.

Agriculture, General Services and other agencies offset by decreases in the Departments of Human Services, Environmental Protection, Corrections and other agencies resulting in the net decrease of \$158 in state program revenues.

The difference of \$20 in actual state program expenditures under the final budget is the net result of the \$28 increase available from departmental services offset by \$48 in lapses.

Actual total state revenues were \$185 less than the final budgeted state revenues due to decreases in both tax (\$155) and nontax (\$30) revenues actually received. The \$28 difference in departmental services is mainly attributable to increases received in the Judiciary, State Police, Executive Offices and the Departments of

Section F: Capital Asset and Long-term Debt Activity

Capital Asset Overview and Explanation

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund financial statements, expenditures for capital assets are typically reported as capital outlay. General capital assets of the Commonwealth are those used in the performance of specific governmental functions with useful lives greater than one year. General capital assets are reported as part of governmental activities in government-wide financial statements. Capital assets of proprietary funds are reported in both proprietary fund financial statements and government-wide financial statements. Fiduciary fund capital assets are reported in fiduciary fund financial statements; fiduciary funds are not included in government-wide financial statements.

Funding for construction of buildings and related improvements is almost entirely provided by proceeds of general obligation (GO) bonds issued; such proceeds are generally accounted for in capital projects funds in governmental fund financial statements as an other financing source. In the government-wide financial statements, bond proceeds are reported as additions to long-term GO bond liabilities. Construction project expenditures and cumulative construction-in-progress expenditures at fiscal year-end are reported as part of general capital assets. Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees, transfers from the Pennsylvania Turnpike Commission, and federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in its governmental fund

financial statements; a portion of such expenditures are reported as additions to capital assets in government-wide financial statements.

In government-wide and proprietary fund financial statements, depreciation expense for capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. In other words, depreciation expense is an allocation of an asset's cost over its estimated useful life and is reported in the government-wide financial statements. This treatment differs from reporting capital outlay as 'current expenditures' in governmental fund financial statements. Depreciation expense of highway and bridge infrastructure and other capital assets is not related to the quality or relative value of these assets; rather, as previously mentioned, it is a specific accounting treatment to recognize the cost of "using up" the assets over periods of time. The estimated useful lives of highway and bridge infrastructure capital assets are 25 years for highways and 50 years for bridges. Neither land nor construction-in-progress assets are considered depreciable; therefore, no depreciation expense is reported for those assets.

Note 1 in the notes to the financial statements section of the CAFR discusses capital assets significant accounting policies.

Note 4 in the notes to the financial statements section of the CAFR provides more information on capital asset activities during the fiscal year ended June 30, 2018.

Long-term Debt Overview – fiscal year ended June 30, 2018

(Amounts in millions)

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all funds during the previous five fiscal years. The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$68.8 billion as of August 31, 2018 with net debt outstanding after credit for refunded debt of \$11.0 billion for a remaining legal debt margin of \$57.8 billion. In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate-approved programs, such as economic revitalization, land and water development, water facilities restoration, and certain environmental initiatives; and for special purposes approved by the General Assembly, such as disaster relief.

At June 30, 2018, the Commonwealth had total General Obligation Bond principal outstanding of \$12.5 billion for the following purposes:

\$7,454	Capital Facilities Bonds
\$4,504	Refunding Bonds
\$ 550	Electorate Approved Debt (various)

During the fiscal year ended June 30, 2018, total debt service fund transfers were paid from the General Fund of \$1,073, the Motor License Fund of \$71 and the Gaming Fund of \$28 to make principal and interest payments to bondholders.

Note 6 in the notes to the financial statements section of the CAFR provides more details on long-term debt balances and activity.

Debt Administration – fiscal year ending June 30, 2019

(Amounts in millions)

During the fiscal year ending June 30, 2019, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,032. This is a decrease of \$215 when compared to actual new money bond issuances of \$1,247, which excludes refunding issuance of \$970, during the fiscal year ended June 30, 2018. This plan represents the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation infrastructure.

Debt principal retirements of \$807 are currently planned for the fiscal year ending June 30, 2019.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20% of the funds' estimated revenues for the fiscal

year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued any such notes through November 30, 2018. In lieu of issuing tax anticipation notes, the Commonwealth may obtain a short-term investment line of credit with the Pennsylvania Treasury Department. All amounts drawn using the lines of credit must be returned with interest in the same fiscal year in which the draw occurred.

There were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2018 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2019. The Commonwealth's planned issuance for the fiscal year ending June 30, 2019 is dependent on the passage of an annual capital budget by the state legislature. No current fiscal year capital budget has been passed as of November 30, 2018.

Section G: Currently Known Facts

(Amounts in whole dollars)

Medicaid Expansion

On January 1, 2015, the Commonwealth implemented Medicaid expansion, which is part of the federal Affordable Care Act and is voluntary for states. Medicaid expansion is currently available to Commonwealth citizens through the Department of Human Services' HealthChoices Medicaid plan. Federal funds will cover 100% of the medical costs of Medicaid expansion for calendar years 2015 to 2016, 95% in 2017, 94% in 2018, 93% in 2019 and 90% in 2020 and subsequent years.

Pension Reform

On June 12, 2017, the Commonwealth enacted Act 5 of 2017 to reform pension benefits for new employees in order to lower the Commonwealth's pension costs and risk in the future. Beginning January 1, 2019, Commonwealth new, non-hazardous duty employees eligible for the State Employees' Retirement System (SERS) benefits must elect one of three new plan options. Unlike prior plans which only offered defined benefit plans, each new plan contains a defined contribution element. Two options are hybrid plans with both defined benefit and defined contribution components, and the third is a defined contribution plan only. The contribution rates, benefit rates, and vesting time-frames vary by plan. Current members have a one-time opportunity to opt into one of the new plans. The addition of defined contribution components transfers a portion of investment risk to the employees, however it also

provides the employees options of contributing additional amounts up to the federal maximum. In addition to the plan changes, Act 5 also created a Public Pension Management and Asset Investment Review Commission to recommend investment cost reductions. The Pennsylvania Independent Fiscal Office (IFO) estimates cash-basis reductions in the Commonwealth's costs in the billions over the next 30 years. The impact on the Commonwealth's financial statements has not yet been fully assessed at the time of issuance, but is anticipated to decrease the Commonwealth's net pension liability and expense over time.

Additionally, Act 5 also created three new plans with defined contribution components for the Public School Employees' Retirement System (PSERS). Effective July 1, 2019, new Pennsylvania public-school employees eligible for the PSERS retirement benefits must elect one of the three new plans. The three plan options are similar in design to the options available with the SERS, but the contribution rates required differ. Annually the Commonwealth reimburses public schools 50% of their employer contributions, however the Commonwealth is responsible for only a small portion of the PSERS net pension liability.

More information regarding the new plans and estimated cost-reductions under Act 5 may be found at www.ifo.state.pa.us.



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Basic Financial Statements



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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Government-wide Financial Statements

Commonwealth of Pennsylvania

Statement of Net Position

June 30, 2018

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash—Note 2, 16.....	\$ 291,104	\$ 1,006,839	\$ 1,297,943	\$ 2,170,326
Cash with fiscal agents—Note 2.....	23,457	2,751,053	2,774,510	-
Temporary investments—Note 2, 16.....	8,660,090	811,827	9,471,917	3,463,949
Receivables (net):				
Taxes—Note 3.....	2,867,093	-	2,867,093	-
Unemployment assessments.....	-	654,614	654,614	-
Accounts.....	1,542,673	154,511	1,697,184	220,126
Investment income.....	16,950	14,539	31,489	7,558
Interest on notes and loans.....	-	11,049	11,049	114,392
Loans—Note 3, 16.....	11,485	43,310	54,795	1,080,757
Lease rentals.....	-	997	997	-
Investment sale proceeds.....	-	104,829	104,829	-
Other.....	196,571	13	196,584	63,255
Due from pension trust funds—Note 5.....	27,504	-	27,504	-
Due from primary government—Note 5.....	-	-	-	17,234
Due from component units—Note 5.....	28,341	-	28,341	417
Due from Federal government.....	4,918,748	8,369	4,927,117	14,829
Due from political subdivisions.....	8,561	5,009	13,570	184
Due from other governments.....	-	11,518	11,518	-
Inventory.....	102,287	258,829	361,116	24,221
Prepaid expenses.....	-	643	643	28,955
Other assets.....	9,010	18,705	27,715	115,958
Total current assets.....	<u>18,703,874</u>	<u>5,856,654</u>	<u>24,560,528</u>	<u>7,322,161</u>
Noncurrent assets:				
Restricted cash—Note 2.....	-	467,745	467,745	3,959
Long-term investments—Note 2, 16.....	2,141,094	3,398,452	5,539,546	2,138,019
Receivables (net):				
Taxes—Note 3.....	955,863	-	955,863	-
Loans—Note 3, 16.....	57,635	392,991	450,626	9,690,179
Due from primary government—Note 5.....	-	-	-	15,000
Due from component units—Note 5.....	152,851	-	152,851	-
Non-depreciable capital assets—Note 4, 16:				
Land.....	3,075,660	220,846	3,296,506	424,997
Construction in progress.....	5,069,863	55,090	5,124,953	1,686,068
Depreciable or amortizable capital assets—Note 4, 16:				
Land improvements.....	1,054,169	81,705	1,135,874	443,523
Buildings and building improvements.....	8,017,820	441,197	8,459,017	5,728,779
Machinery and equipment.....	1,691,812	191,281	1,883,093	1,441,185
Turnpike infrastructure.....	-	-	-	8,809,493
Highway infrastructure.....	31,955,541	-	31,955,541	-
Bridge infrastructure.....	15,878,059	-	15,878,059	-
Waterway infrastructure.....	33,731	-	33,731	-
Infrastructure-other.....	219,863	-	219,863	-
Library books.....	-	-	-	79,866
Other capital assets.....	-	-	-	1
Intangible assets.....	833,376	20,245	853,621	74,590
Less: accumulated depreciation and amortization.....	(28,988,159)	(399,914)	(29,388,073)	(8,951,581)
Net depreciable or amortizable capital assets.....	<u>30,696,212</u>	<u>334,514</u>	<u>31,030,726</u>	<u>7,625,856</u>
Other assets.....	-	5,588	5,588	355,650
Total non-current assets.....	<u>42,149,178</u>	<u>4,875,226</u>	<u>47,024,404</u>	<u>21,939,728</u>
TOTAL ASSETS.....	<u>60,853,052</u>	<u>10,731,880</u>	<u>71,584,932</u>	<u>29,261,889</u>
DEFERRED OUTFLOWS OF RESOURCES				
TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note 3, 6, 9, 10, 16	<u>\$ 2,704,718</u>	<u>\$ 127,456</u>	<u>\$ 2,832,174</u>	<u>\$ 883,437</u>

Commonwealth of Pennsylvania

Statement of Net Position

June 30, 2018

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 8,769,650	\$ 769,251	\$ 9,538,901	\$ 586,537
Investment purchases payable.....	444	85,601	86,045	-
Tax refunds payable.....	569,110	-	569,110	-
Tuition benefits payable—Note 6.....	-	246,238	246,238	-
Securities lending obligations.....	42,883	107,643	150,526	9,196
Internal balances—Note 5.....	(32,514)	32,809	295	-
Due to pension trust funds—Note 5.....	163,678	2,503	166,181	-
Due to primary government—Note 5.....	-	-	-	28,364
Due to component units—Note 5.....	21,229	23	21,252	418
Due to political subdivisions.....	1,735,984	8,832	1,744,816	-
Due to other governments.....	29,250	20,384	49,634	1,734
Interest payable.....	198,196	44,055	242,251	302,864
Unearned revenue.....	129,751	69,217	198,968	149,978
Notes payable—Note 16.....	-	-	-	291,371
General obligation bonds payable—Note 6.....	807,045	-	807,045	-
Bonds payable—Note 16.....	-	-	-	80,530
Revenue bonds payable—Note 6, 16.....	-	472,885	472,885	501,927
Capital lease/installment purchase obligations—Note 6.....	3,916	-	3,916	4,180
Self insurance liabilities—Note 6, 8.....	143,015	9,057	152,072	8,889
Compensated absence liability—Notes 6, 16.....	146,129	6,889	153,018	20,776
Insurance loss liability—Note 6.....	-	168,820	168,820	-
Other financing obligations—Note 16.....	-	-	-	4,308
Other postemployment benefit liability—Note 10, 16.....	357,435	16,627	374,062	59,523
Other liabilities—Note 6.....	289,581	16,367	305,948	426,028
Total current liabilities.....	13,374,782	2,077,201	15,451,983	2,476,623
Noncurrent liabilities:				
Tuition benefits payable—Note 6.....	-	1,397,997	1,397,997	-
Due to primary government—Note 5.....	-	-	-	152,851
Due to component units—Note 5.....	15,000	-	15,000	-
Unearned revenue.....	-	-	-	2,761
Student loan auction rate security bonds payable—Note 16.....	-	-	-	11,100
Insurance loss liability—Note 6.....	-	1,329,146	1,329,146	-
Notes payable—Note 16.....	-	-	-	4,440,903
General obligation bonds payable—Note 6.....	12,608,586	-	12,608,586	-
Bonds payable—Note 16.....	-	-	-	1,863,234
Revenue bonds payable—Note 6, 16.....	-	4,846,939	4,846,939	16,076,470
Capital lease/installment purchase obligations—Note 6.....	95,343	-	95,343	66,842
Other financing obligations—Note 7, 16.....	502,390	-	502,390	24,009
Compensated absence liability—Note 6, 16.....	599,153	29,469	628,622	148,221
Self insurance liabilities—Note 6, 8.....	894,433	56,872	951,305	53,021
Other postemployment benefit liability—Note 10, 16.....	25,024,404	1,091,970	26,116,374	2,763,444
Nonexchange financial guarantees—Note 14.....	-	17,655	17,655	-
Net pension liability—Note 9.....	13,922,421	629,694	14,552,115	1,735,749
Other liabilities—Note 6.....	765,982	1,898	767,880	566,167
Total non-current liabilities.....	54,427,712	9,401,640	63,829,352	27,904,772
TOTAL LIABILITIES.....	67,802,494	11,478,841	79,281,335	30,381,395
DEFERRED INFLOWS OF RESOURCES				
TOTAL DEFERRED INFLOWS OF RESOURCES—Note 3, 6, 9, 10, 16.....	3,698,418	155,948	3,854,366	601,046
NET POSITION—Note 15				
Net investment in capital assets.....	32,975,535	600,833	33,576,368	1,241,654
Restricted for:				
General government operations.....	197	-	197	-
Health-related programs.....	13,133	-	13,133	-
Transportation.....	920,443	136,932	1,057,375	-
Capital projects.....	-	182	182	4,072,532
Debt service.....	-	4,224	4,224	585,711
Unemployment/worker's compensation.....	522,065	2,861,392	3,383,457	-
Environmental and conservation programs.....	283,430	-	283,430	-
Economic development.....	5,619	13,495	19,114	105,628
Gaming/horse racing regulation.....	136,002	-	136,002	-
Emergency support.....	92,680	130,377	223,057	-
Higher education.....	-	381,710	381,710	556,930
Other purposes.....	-	133,877	133,877	630,237
Unrestricted.....	(42,892,246)	(5,038,475)	(47,930,721)	(8,029,807)
TOTAL NET POSITION.....	\$ (7,943,142)	\$ (775,453)	\$ (8,718,595)	\$ (837,115)

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Activities
For the Fiscal Year Ended June 30, 2018
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
Direction and supportive services.....	\$ 1,580,148	\$ 351,172	\$ 88,820	\$ 256	\$ (1,139,900)	\$ -	\$ (1,139,900)	\$ -
Protection of persons and property.....	6,839,284	1,895,974	398,333	2,651	(4,542,326)	-	(4,542,326)	-
Public education.....	16,516,828	7,175	2,045,911	-	(14,463,742)	-	(14,463,742)	-
Health and human services.....	40,314,856	3,165,336	24,066,847	-	(13,082,673)	-	(13,082,673)	-
Economic development.....	930,891	5,582	409,235	-	(516,074)	-	(516,074)	-
Transportation.....	6,193,274	1,434,982	2,379,503	27,683	(2,351,106)	-	(2,351,106)	-
Recreation and cultural enrichment.....	597,073	250,493	69,540	92	(276,948)	-	(276,948)	-
Interest.....	520,369	-	-	-	(520,369)	-	(520,369)	-
Total governmental activities.....	73,492,723	7,110,714	29,458,189	30,682	(36,893,138)	-	(36,893,138)	-
Business-type activities:								
State lottery.....	4,089,703	4,213,344	2,879	-	-	126,520	126,520	-
State workers' insurance.....	167,630	166,029	80,537	-	-	78,936	78,936	-
Tuition payment.....	255,056	205,717	148,276	-	-	98,937	98,937	-
Unemployment compensation.....	1,911,547	2,961,853	72,015	-	-	1,122,321	1,122,321	-
Commonwealth financing.....	253,020	21,692	12,708	-	-	(218,620)	(218,620)	-
Liquor control.....	1,965,637	2,116,899	2,998	-	-	154,260	154,260	-
Economic development and other.....	55,765	30,511	9,419	-	-	(15,835)	(15,835)	-
Total business-type activities.....	8,698,358	9,716,045	328,832	-	-	1,346,519	1,346,519	-
Total primary government.....	\$ 82,191,081	\$ 16,826,759	\$ 29,787,021	\$ 30,682	(36,893,138)	1,346,519	(35,546,619)	-
Component units:								
Total component units.....	\$ 6,248,107	\$ 3,554,486	\$ 1,965,229	\$ 348,006	-	-	-	(380,386)
		General revenues:						
		Taxes:						
					12,810,647	-	12,810,647	-
					10,834,227	-	10,834,227	-
					4,548,567	-	4,548,567	-
					3,846,040	-	3,846,040	-
					1,427,502	-	1,427,502	-
					1,008,382	-	1,008,382	-
					1,363,371	-	1,363,371	-
					606,555	-	606,555	-
					624,910	-	624,910	-
					37,070,201	-	37,070,201	-
					38,758	-	38,758	-
					37,108,959	-	37,108,959	-
					1,834,711	(1,834,711)	-	-
					38,943,670	(1,834,711)	37,108,959	-
					2,050,532	(488,192)	1,562,340	(380,386)
					(9,993,674)	(287,261)	(10,280,935)	(456,729)
					Net position, July 1, 2017 (restated)—Note 16, 18.....			
					\$ (7,943,142)	\$ (775,453)	\$ (8,718,595)	\$ (837,115)
					Net position, June 30, 2018—Note 15.....			

- The notes to the financial statements are an integral part of this statement. -



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Fund

Financial Statements

Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2018

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
ASSETS				
Cash—Note 2.....	\$ 239,684	\$ 7,572	\$ 42,459	\$ 289,715
Cash with fiscal agents—Note 2.....	23,457	-	-	23,457
Temporary investments—Note 2.....	3,905,638	1,022,463	3,701,243	8,629,344
Long-term investments—Note 2.....	207,592	153,871	1,756,842	2,118,305
Receivables (net):				
Taxes—Note 3.....	3,469,804	315,714	37,438	3,822,956
Accounts.....	1,321,992	29,380	190,910	1,542,282
Investment income.....	5,435	1,600	9,870	16,905
Loans—Note 3.....	69,120	-	-	69,120
Other.....	111,401	21,486	63,684	196,571
Due from other funds—Note 5.....	76,728	5,208	205,774	287,710
Due from pension trust funds—Note 5.....	20,774	23	2,465	23,262
Due from component units—Note 5.....	166,007	30	15,138	181,175
Due from Federal government.....	4,546,190	329,518	43,040	4,918,748
Due from political subdivisions.....	4,043	4,487	-	8,530
Advances to other funds—Note 5.....	7,475	-	182,250	189,725
Other assets.....	3,000	-	-	3,000
TOTAL ASSETS.....	\$ 14,178,340	\$ 1,891,352	\$ 6,251,113	\$ 22,320,805
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 7,549,416	\$ 721,962	\$ 441,989	\$ 8,713,367
Investment purchases payable.....	-	-	444	444
Tax refunds payable.....	565,449	3,661	-	569,110
Securities lending obligations.....	1,575	1,177	39,957	42,709
Due to other funds—Note 5.....	123,156	59,432	113,195	295,783
Due to component units—Note 5.....	247	20,975	15,004	36,226
Due to pension trust funds—Note 5.....	152,713	8,507	2,217	163,437
Due to political subdivisions.....	1,475,339	42,348	218,291	1,735,978
Due to other governments.....	8,496	20,213	487	29,196
Unearned revenue—Note 3.....	17,664	6,943	105,144	129,751
Advances from other funds—Note 5.....	233,250	2,175	19,500	254,925
Other liabilities.....	385,971	-	-	385,971
TOTAL LIABILITIES.....	10,513,276	887,393	956,228	12,356,897
Deferred inflows of resources:				
TOTAL DEFERRED INFLOWS OF RESOURCES - Note 3...	2,851,354	-	176,299	3,027,653
Fund balances—Note 15:				
Nonspendable.....	201,500	-	-	201,500
Restricted.....	1,378	1,003,959	3,347,768	4,353,105
Committed.....	2,737,182	-	1,780,299	4,517,481
Unassigned deficit.....	(2,126,350)	-	(9,481)	(2,135,831)
TOTAL FUND BALANCES.....	813,710	1,003,959	5,118,586	6,936,255
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 14,178,340	\$ 1,891,352	\$ 6,251,113	\$ 22,320,805

- The notes to the financial statements are an integral part of this statement. -

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Commonwealth of Pennsylvania
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
June 30, 2018

(Amounts in thousands)

The governmental funds balance sheet reports total fund balance for all governmental funds. In the governmental activities column in the statement of net position, amounts are reported for all governmental funds and are adjusted to account for specific items that are treated differently on the statement of net position than on the governmental funds balance sheet. Under the modified accrual basis of accounting, numerous governmental assets are deferred because they may not be "available," (that is, they are not current financial resources) and, similarly, numerous governmental liabilities are not reported because they are not due and payable until after fiscal year-end. The following reconciliation begins with total governmental funds fund balance and ends with total net position for governmental activities. It includes all of the adjustments made to "convert" governmental fund information in the fund financial statements to governmental activities information in the statement of net position.

Total Fund Balances--Governmental Funds..... \$ 6,936,255

General capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds balance sheet.

These assets consist of:

Land.....	\$ 3,075,660	
Land improvements.....	1,053,977	
Buildings and building improvements.....	8,011,566	
Machinery and equipment.....	1,579,530	
Infrastructure.....	48,087,194	
Intangible.....	833,376	
Construction in progress.....	5,069,863	
Accumulated depreciation.....	<u>(28,914,161)</u>	
Net general capital assets.....		38,797,005

Certain revenues are earned but not available at fiscal year-end and therefore are reported as deferred inflows of resources in the governmental funds balance sheet..... 3,027,653

Debt refunding losses are recognized as deferred outflows of resources and debt refunding gains are reported as deferred inflows of resources in the governmental activities statement of net position..... (281,047)

Other miscellaneous adjustments that are not reported in the governmental funds balance sheet but are reported in the statement of net position..... 73,510

Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in the statement of net position as governmental activities (36,274)

The statement of net position includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 87,755

Commonwealth of Pennsylvania
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
June 30, 2018

(Amounts in thousands)

The statement of net position includes net pension liabilities for the governmental funds that are considered long-term and therefore are not reported in the governmental funds balance sheet. These include the net pension liability and associated deferred outflows of resources and deferred inflows of resources related to these pension obligations..... (12,934,781)

The statement of net position includes other postemployment benefit liabilities for the governmental funds that are considered long-term and therefore are not reported in the governmental funds balance sheet. These include the other postemployment benefit liability and associated deferred outflows of resources and deferred inflows of resources related to other postemployment benefits..... (26,955,466)

Certain general long-term liabilities are not due and payable at fiscal year-end and therefore are not reported in the governmental funds balance sheet. These liabilities are:

Bonds payable.....	\$	(13,415,631)	
Accrued bond interest payable.....		(198,196)	
Capital lease and installment purchase obligations.....		(96,211)	
Compensated absence liability.....		(742,350)	
Self-insurance liabilities.....		(1,033,382)	
Other financing obligations.....		(502,390)	
Other liabilities.....		<u>(669,592)</u>	
			<u>(16,657,752)</u>

Total Net Position--Governmental Activities..... \$ (7,943,142)

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
REVENUES:				
Taxes, net of refunds.....	\$ 31,131,530	\$ 3,811,035	\$ 2,224,378	\$ 37,166,943
Licenses and fees.....	812,100	1,033,368	1,276,438	3,121,906
Intergovernmental.....	26,476,775	1,877,278	903,404	29,257,457
Charges for sales and services.....	2,991,557	101,580	249,564	3,342,701
Investment income.....	37,499	16,849	114,885	169,233
Interest on notes and loans.....	2,620	-	-	2,620
Other.....	243,709	3,651	380,804	628,164
TOTAL REVENUES.....	61,695,790	6,843,761	5,149,473	73,689,024
EXPENDITURES:				
Current:				
Direction and supportive services.....	907,813	36,218	463,068	1,407,099
Protection of persons and property.....	4,514,633	1,028,494	733,821	6,276,948
Health and human services.....	39,447,145	-	738,915	40,186,060
Public education.....	15,832,100	365	635,334	16,467,799
Recreation and cultural enrichment.....	308,792	7,225	242,998	559,015
Economic development.....	406,499	267	509,308	916,074
Transportation.....	62,969	2,702,039	1,561,565	4,326,573
Capital outlay.....	99,552	2,989,777	337,190	3,426,519
Debt service:				
Principal retirement.....	-	-	724,720	724,720
Interest and fiscal charges.....	28,083	9	539,832	567,924
TOTAL EXPENDITURES.....	61,607,586	6,764,394	6,486,751	74,858,731
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES.....	88,204	79,367	(1,337,278)	(1,169,707)
OTHER FINANCING SOURCES (USES):				
Bonds issued.....	-	-	1,247,000	1,247,000
Refunding bonds issued.....	-	-	970,030	970,030
Premium on debt issuance.....	15,535	-	237,163	252,698
Discount on bonds issued.....	-	-	(1,430)	(1,430)
Other financing agreements.....	201,115	-	-	201,115
Transfers in—Note 5.....	2,459,826	20,797	1,541,445	4,022,068
Transfers out—Note 5.....	(1,253,402)	(106,067)	(827,888)	(2,187,357)
Payment to refunded bond escrow agent.....	-	-	(1,136,887)	(1,136,887)
Capital lease and installment purchase obligations.....	-	749	-	749
NET OTHER FINANCING SOURCES (USES).....	1,423,074	(84,521)	2,029,433	3,367,986
NET CHANGE IN FUND BALANCES.....	1,511,278	(5,154)	692,155	2,198,279
FUND BALANCES, JULY 1, 2017.....	(697,568)	1,009,113	4,426,431	4,737,976
FUND BALANCES, JUNE 30, 2018.....	\$ 813,710	\$ 1,003,959	\$ 5,118,586	\$ 6,936,255

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances-Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic resources basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2018. Expenses such as depreciation and certain claims and judgments and revenues that may not be collected for several months after fiscal year-end are included in the government-wide statement but are not included in the governmental funds statement. This reconciliation reports all economic events during the fiscal year that appear on the government-wide Statement of Activities but are not included in the governmental funds statement.

Net change in total fund balances of governmental funds..... \$ 2,198,279

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds; however, in the government-wide statements capital outlays are reported as increases in capital assets (not expenses) and the cost of general capital assets is allocated over their estimated useful lives and reported as depreciation expense. All depreciation is reported as part of functional program expenses. The current amounts were:

Capital asset acquisitions	\$ 3,426,519	
Depreciation expense and losses on retirement or sale of assets.....	(2,041,769)	
Capital lease, installment purchase and related payments.....	3,046	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,387,796

Long term debt proceeds provide current financial resources to governmental funds; however, issuing debt increases general long-term liabilities in the statement of net position. During the current fiscal year, proceeds were received from:

General obligation bonds including a premium of \$67,325 and a discount of \$1,430.....	\$ (1,312,895)	
Refunding bonds, including a premium of \$169,837.....	(1,139,867)	
Other financing obligations including a premium of \$15,535.....	(216,650)	
Capital lease and installment purchase acquisitions.....	(749)	
Total bond proceeds and capital lease and installment purchase acquisitions.....		(2,670,161)

Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net position. During the current fiscal year, these amounts consisted of:

Bond principal retirement.....	\$ 724,720	
Payments to refunded bond escrow agent.....	1,136,887	
Total bond principal retirement and payment to refunded bond escrow agent.....		1,861,607

Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses..... (782)

Certain tax and other revenues due by fiscal year-end will not be collected for several months or years after fiscal year-end; they are not considered available revenues in the governmental funds, but they are reported as revenues in the statement of activities..... 15,120

Certain expense adjustments are reported in the statement of activities because they are not due and payable and are funded with future economic resources rather than current available financial resources..... (741,327)

Net change in governmental net position in the statement of activities..... \$ 2,050,532

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Net Position

Proprietary Funds
 June 30, 2018

(Amounts in thousands)

	Enterprise Funds								Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2017)	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	
ASSETS									
Current assets:									
Cash—Note 2.....	\$ 54,372	\$ 1,770	\$ 1,798	\$ 7,056	\$ 54,202	\$ 851,704	\$ 35,937	\$ 1,006,839	\$ 1,389
Cash with fiscal agents.....	2,751,052	-	-	-	-	-	1	2,751,053	-
Temporary investments—Note 2.....	5,610	146,925	178,967	181,534	204,076	-	94,715	811,827	30,746
Receivables (net):									
Unemployment assessments.....	654,614	-	-	-	-	-	-	654,614	-
Accounts.....	73,084	53,867	26,800	-	726	-	34	154,511	390
Investment income.....	29	9,121	352	4,874	-	-	163	14,539	45
Interest on loans.....	8,660	-	-	-	-	1,694	695	11,049	-
Loans—Note 3.....	-	-	-	-	-	17,699	25,611	43,310	-
Lease rental.....	-	-	-	-	-	-	997	997	-
Investment sale proceeds.....	-	-	-	104,829	-	-	-	104,829	-
Other.....	-	-	-	10	-	-	3	13	-
Due from other funds—Note 5.....	1,765	-	12,935	-	854	69,122	2,143	86,819	42,952
Due from pension trust funds—Note 5.....	-	-	-	-	-	-	-	-	4,242
Due from component units—Note 5.....	-	-	-	-	-	-	-	-	17
Due from Federal government.....	1,022	-	7,345	-	-	-	2	8,369	-
Due from political subdivisions.....	5,009	-	-	-	-	-	-	5,009	31
Due from other governments.....	11,459	-	-	-	-	-	59	11,518	-
Inventory.....	-	-	-	-	258,825	-	4	258,829	14,532
Prepaid expenses.....	-	-	-	-	73	-	570	643	-
Other assets.....	-	550	17,642	-	-	-	513	18,705	-
Total current assets.....	3,566,676	212,233	245,839	298,303	518,756	940,219	161,447	5,943,473	94,344
Noncurrent assets:									
Restricted cash.....	463,196	-	-	-	-	-	4,549	467,745	-
Long-term investments—Note 2.....	-	1,369,460	3	1,832,570	-	-	196,419	3,398,452	22,789
Receivables (net):									
Loans—Note 3.....	-	-	-	-	-	270,070	122,921	392,991	-
Non-depreciable capital assets—Note 4:									
Land.....	-	-	-	-	323	-	220,523	220,846	-
Construction in progress.....	-	-	-	-	-	-	55,090	55,090	-
Depreciable or amortizable capital assets—Note 4:									
Land improvements.....	-	-	-	-	-	-	81,705	81,705	192
Buildings and building improvements.....	-	-	-	-	21,422	-	419,775	441,197	6,254
Machinery and equipment.....	-	1,512	87,072	-	57,025	-	45,672	191,281	112,282
Intangible assets.....	-	-	-	-	20,245	-	-	20,245	-
Less: accumulated depreciation and amortization.....	-	(1,512)	(64,048)	-	(68,976)	-	(265,378)	(399,914)	(73,998)
Net depreciable or amortizable capital assets.....	-	-	23,024	-	29,716	-	281,774	334,514	44,730
Other assets.....	-	-	-	-	-	-	5,588	5,588	-
Total noncurrent assets.....	463,196	1,369,460	23,027	1,832,570	30,039	270,070	886,864	4,875,226	67,519
TOTAL ASSETS.....	4,029,872	1,581,693	268,866	2,130,873	548,795	1,210,289	1,048,311	10,818,699	161,863
DEFERRED OUTFLOWS OF RESOURCES									
TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note 3, 6, 9, 10.....									
	3,380	5,455	11,232	-	96,620	1,540	9,229	127,456	9,728

Commonwealth of Pennsylvania
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Commonwealth of Pennsylvania
Statement of Net Position

Proprietary Funds
 June 30, 2018

(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2017)	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities.....	\$ 60,471	\$ 11,833	\$ 384,494	\$ 3,897	\$ 298,692	\$ -	\$ 9,864	\$ 769,251	\$ 56,282
Investment purchases payable.....	-	-	-	85,601	-	-	-	85,601	-
Tuition benefits payable—Note 6.....	-	-	-	246,238	-	-	-	246,238	-
Securities lending obligations.....	-	90,806	-	15,335	-	-	1,502	107,643	174
Due to other funds—Note 5.....	54	-	96,130	-	20,126	695	213	117,218	4,665
Due to pension trust funds—Note 5.....	46	-	233	-	2,123	-	101	2,503	241
Due to component units—Note 5.....	-	-	-	-	-	-	23	23	3
Due to political subdivisions.....	2	-	8,802	-	-	-	28	8,832	6
Due to other governments.....	12,653	-	6,206	-	563	-	962	20,384	54
Interest payable.....	25,232	-	-	-	-	18,609	214	44,055	-
Unearned revenue.....	-	64,058	1,633	-	-	-	3,526	69,217	-
Revenue bonds payable—Note 6.....	392,975	-	-	-	-	75,650	4,260	472,885	-
Capital lease/installment purchase obligations—Note 6....	-	-	-	-	-	-	-	-	883
Self insurance liabilities—Note 8.....	143	208	327	-	8,148	-	231	9,057	558
Compensated absences—Note 6.....	-	322	505	-	5,557	-	505	6,889	557
Insurance loss liability—Note 6.....	-	168,820	-	-	-	-	-	168,820	-
Advances from other funds—Note 5.....	-	2,410	-	-	-	-	-	2,410	-
Other postemployment benefit liability—Note 10.....	65	1,067	1,517	-	12,902	-	1,076	16,627	1,111
Other liabilities.....	148	16,030	-	-	-	-	189	16,367	-
Total current liabilities.....	491,789	355,554	499,847	351,071	348,111	94,954	22,694	2,164,020	64,534
Noncurrent liabilities:									
Tuition benefits payable—Note 6.....	-	-	-	1,397,997	-	-	-	1,397,997	-
Insurance loss liability—Note 6.....	-	1,328,650	-	-	-	-	496	1,329,146	-
Revenue bonds payable—Note 6.....	661,042	-	-	-	-	4,176,899	8,998	4,846,939	-
Installment purchase obligation—Note 6.....	-	-	-	-	-	-	-	-	2,165
Compensated absences—Note 6.....	-	1,375	2,152	95	23,691	-	2,156	29,469	2,375
Self insurance liabilities—Note 8.....	898	1,308	2,056	-	51,157	-	1,453	56,872	3,508
Other postemployment benefit liability—Note 10.....	4,235	69,638	98,941	-	853,993	-	65,163	1,091,970	72,487
Nonexchange financial guarantees—Note 14.....	-	-	-	-	-	17,655	-	17,655	-
Net pension liability—Note 9.....	12,501	39,544	56,763	-	480,308	-	40,578	629,694	51,882
Other liabilities.....	-	-	-	-	-	-	1,898	1,898	-
Total noncurrent liabilities.....	678,676	1,440,515	159,912	1,398,092	1,409,149	4,194,554	120,742	9,401,640	132,417
TOTAL LIABILITIES.....	1,170,465	1,796,069	659,759	1,749,163	1,757,260	4,289,508	143,436	11,565,660	196,951
DEFERRED INFLOWS OF RESOURCES									
TOTAL DEFERRED INFLOWS									
OF RESOURCES—Note 3, 6, 9, 10.....	1,395	9,662	13,775	-	118,484	-	12,632	155,948	10,914
NET POSITION—Note 15									
Net investment in capital assets.....	-	-	23,024	-	30,039	-	547,770	600,833	41,682
Restricted for:									
Transportation.....	-	-	-	-	-	-	136,932	136,932	-
Capital projects.....	-	-	-	-	-	-	182	182	-
Debt service.....	-	-	-	-	-	-	4,224	4,224	-
Unemployment/workers' compensation.....	2,861,392	-	-	-	-	-	-	2,861,392	-
Economic development.....	-	-	-	-	-	-	13,495	13,495	-
Emergency support.....	-	-	-	-	-	-	130,377	130,377	-
Higher Education.....	-	-	-	381,710	-	-	-	381,710	-
Other purposes.....	-	-	-	-	-	-	133,877	133,877	-
Unrestricted.....	-	(218,583)	(416,460)	-	(1,260,368)	(3,077,679)	(65,385)	(5,038,475)	(77,956)
TOTAL NET POSITION.....	\$ 2,861,392	\$ (218,583)	\$ (393,436)	\$ 381,710	\$ (1,230,329)	\$ (3,077,679)	\$ 901,472	\$ (775,453)	\$ (36,274)

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2017)	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
OPERATING REVENUES:									
Sales and services—Note 3.....	\$ 2,945,455	\$ 165,387	\$ 4,212,974	\$ 205,717	\$ 2,116,899	\$ 746	\$ 25,646	\$ 9,672,824	\$ 98,206
Interest on loans.....	-	-	-	-	-	20,857	2,908	23,765	-
Other.....	-	642	-	-	-	89	678	1,409	615
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	2,945,455	166,029	4,212,974	205,717	2,116,899	21,692	29,232	9,697,998	98,821
Provision for uncollectible accounts.....	-	-	-	-	-	(12,659)	184	(12,475)	-
NET OPERATING REVENUES.....	2,945,455	166,029	4,212,974	205,717	2,116,899	9,033	29,416	9,685,523	98,821
OPERATING EXPENSES:									
Cost of sales and services.....	1,890,912	163,892	4,083,523	252,851	1,955,148	87,427	28,225	8,461,978	88,033
Depreciation and amortization.....	-	-	4,378	-	10,489	-	21,648	36,515	12,629
Other.....	-	-	1,802	-	-	-	4,568	6,370	-
TOTAL OPERATING EXPENSES	1,890,912	163,892	4,089,703	252,851	1,965,637	87,427	54,441	8,504,863	100,662
OPERATING INCOME (LOSS).....	1,054,543	2,137	123,271	(47,134)	151,262	(78,394)	(25,025)	1,180,660	(1,841)
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	15,629	80,537	2,913	148,276	2,998	12,708	9,419	272,480	1,359
Interest expense.....	(20,368)	-	-	-	-	(137,665)	-	(158,033)	(89)
Investment expense.....	-	(3,738)	-	(2,205)	-	-	-	(5,943)	-
Grants and other revenues.....	72,784	-	336	-	-	-	1,279	74,399	-
Other expenses.....	(267)	-	-	-	-	(15,269)	(1,508)	(17,044)	(211)
NONOPERATING REVENUES (EXPENSES), NET.....	67,778	76,799	3,249	146,071	2,998	(140,226)	9,190	165,859	1,059
INCOME (LOSS) BEFORE TRANSFERS.....	1,122,321	78,936	126,520	98,937	154,260	(218,620)	(15,835)	1,346,519	(782)
TRANSFERS:									
Transfers in—Note 5.....	-	-	145,700	-	-	293,106	91,628	530,434	-
Transfers out—Note 5.....	(3,000)	-	(250,907)	-	(187,600)	(1,914,138)	(9,500)	(2,365,145)	-
TRANSFERS, NET.....	(3,000)	-	(105,207)	-	(187,600)	(1,621,032)	82,128	(1,834,711)	-
INCREASE/(DECREASE) IN NET POSITION.....	1,119,321	78,936	21,313	98,937	(33,340)	(1,839,652)	66,293	(488,192)	(782)
TOTAL NET POSITION, JULY 1, 2017 (restated)—Note 18	1,742,071	(297,519)	(414,749)	282,773	(1,196,989)	(1,238,027)	835,179	(287,261)	(35,492)
TOTAL NET POSITION, JUNE 30, 2018.....	\$ 2,861,392	\$ (218,583)	\$ (393,436)	\$ 381,710	\$(1,230,329)	\$(3,077,679)	\$ 901,472	\$ (775,453)	\$ (36,274)

- The notes to the financial statements are an integral part of this statement. -

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Commonwealth of Pennsylvania
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2017)	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from employers.....	\$ 3,032,624	\$ 168,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,200,836	\$ -
Receipts from customers and participants.....	-	-	4,203,880	205,717	2,117,437	-	18,776	6,545,810	73,410
Receipts from borrowers for fees and loan repayments.....	-	-	-	-	-	60,159	29,117	89,276	-
Receipt of premiums.....	-	-	-	-	-	-	6,252	6,252	-
Payments to programs for the elderly.....	-	-	(955,494)	-	-	-	-	(955,494)	-
Payments to prize winners.....	-	-	(2,715,474)	-	-	-	-	(2,715,474)	-
Payments to participants.....	-	-	-	(242,137)	-	-	-	(242,137)	-
Payments to claimants.....	(1,886,927)	(165,331)	-	-	-	-	-	(2,052,258)	-
Payments to borrowers.....	-	-	-	-	-	(45,692)	(20,858)	(66,550)	-
Payments to vendors, employees and other costs.....	-	(62,763)	(408,883)	(6,523)	(1,898,441)	(3,962)	(24,430)	(2,405,002)	(61,431)
Payments of grants and loan guarantees.....	-	-	-	-	-	(82,618)	-	(82,618)	-
Other receipts.....	-	642	-	-	-	-	29	671	615
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	1,145,697	(59,240)	124,029	(42,943)	218,996	(72,113)	8,886	1,323,312	12,594
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Net borrowings under advances from other funds.....	-	61	-	-	-	-	-	61	-
Proceeds from other non-capital borrowings.....	-	-	-	-	-	2,014,949	-	2,014,949	-
Principal payments on other non-capital debt.....	(456,810)	-	-	-	-	(72,205)	-	(529,015)	-
Interest payments on other non-capital debt.....	(65,538)	-	-	-	-	(135,783)	-	(201,321)	-
Transfers in.....	-	-	145,700	-	-	257,855	-	403,555	-
Transfers out.....	(3,000)	-	(250,907)	-	(189,875)	(1,914,138)	(9,500)	(2,367,420)	-
Grants and other revenues.....	57,114	-	336	-	-	-	1,320	58,770	-
Other payments for non-capital financing uses.....	(267)	-	-	-	-	(15,268)	(4,320)	(19,855)	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	(468,501)	61	(104,871)	-	(189,875)	135,410	(12,500)	(640,276)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets.....	-	-	(3,450)	-	(3,289)	-	(76,108)	(82,847)	(15,802)
Proceeds from disposal of capital assets.....	-	-	-	-	33	-	-	33	3,723
Capital lease/installment purchase payments.....	-	-	-	-	-	-	-	-	1,415
Principal payments on other capital debt.....	-	-	-	-	-	-	(3,870)	(3,870)	-
Interest payments on other capital debt.....	-	-	-	-	-	-	(739)	(739)	-
Transfers in.....	-	-	-	-	-	-	95,985	95,985	-
Other receipts for capital and related financing activities.....	-	-	-	-	-	-	4,606	4,606	-
Other payments for capital and related financing uses.....	-	-	-	-	-	-	(199)	(199)	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	-	(3,450)	-	(3,256)	-	19,675	12,969	(10,664)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(19,874)	(1,379,954)	(1,670,345)	(2,940,775)	(1,471,190)	-	(66,087)	(7,548,225)	(314,785)
Sales and maturities of investments.....	18,992	1,398,189	1,653,600	2,948,933	1,456,517	-	62,426	7,538,657	308,285
Investment income.....	15,608	41,296	2,717	35,742	2,998	12,708	6,126	117,195	964
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	14,726	59,531	(14,028)	43,900	(11,675)	12,708	2,465	107,627	(5,536)
NET INCREASE (DECREASE) IN CASH.....	691,922	352	1,680	957	14,190	76,005	18,526	803,632	(3,606)
CASH AT JULY 1, 2017.....	2,576,698	1,418	118	6,099	40,012	775,699	21,961	3,422,005	4,995
CASH AT JUNE 30, 2018 (including \$467,745 included in restricted assets).....	\$ 3,268,620	\$ 1,770	\$ 1,798	\$ 7,056	\$ 54,202	\$ 851,704	\$ 40,487	\$ 4,225,637	\$ 1,389

Commonwealth of Pennsylvania
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2017)	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES									
Operating income (loss).....	\$ 1,054,543	\$ 2,137	\$ 123,271	\$ (47,134)	\$ 151,262	\$ (78,394)	\$ (25,025)	\$ 1,180,660	\$ (1,841)
Depreciation and amortization of capital assets.....	-	-	4,378	-	10,489	-	21,648	36,515	12,629
Amortization of other assets.....	-	-	-	-	-	-	4,569	4,569	-
Loss from disposals of capital assets.....	-	-	-	-	(19)	-	-	(19)	-
Provision for uncollectible accounts.....	-	-	-	-	-	12,659	(184)	12,475	-
Other adjustments.....	-	-	-	-	-	-	-	-	(3,723)
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:									
Unemployment assessments receivable.....	89,841	-	-	-	-	-	-	89,841	-
Accounts receivable.....	159	7,030	(2,850)	-	1,381	-	1,075	6,795	14
Interest on loans receivable.....	(1,155)	-	-	-	-	666	(39)	(528)	-
Loans receivable.....	-	-	-	-	-	(8,291)	6,168	(2,123)	-
Lease rental receivable.....	-	-	-	-	-	-	(414)	(414)	-
Other receivables.....	-	-	-	(6)	-	-	-	(6)	-
Due from other funds.....	2,819	-	(4)	-	(824)	-	3,905	5,896	(21,611)
Due from pension trust funds.....	-	-	-	-	-	-	-	-	470
Due from component units.....	517	-	-	-	-	-	-	517	61
Due from political subdivisions.....	(23)	-	-	-	-	-	-	(23)	(7)
Due from other governments.....	(1,751)	-	-	-	-	-	37	(1,714)	-
Inventory.....	-	-	-	-	(3,550)	-	-	(3,550)	1,797
Prepaid expenses.....	-	-	-	-	3,010	-	(9)	3,001	-
Other current and noncurrent assets.....	-	-	(1,322)	-	-	400	(19)	(941)	-
Deferred outflows.....	(3,238)	4,729	6,254	-	46,967	-	4,513	59,225	5,377
Accounts payable and accrued liabilities.....	(12,559)	(302)	5,768	568	2,277	-	(2,443)	(6,691)	20,180
Tuition benefits payable.....	-	-	-	3,466	-	-	-	3,466	-
Due to other funds.....	(329)	-	(42)	-	13,787	6	(164)	13,258	1,618
Due to pension trust funds.....	(47)	-	8	-	51	-	(51)	(39)	(147)
Due to component units.....	-	-	-	-	-	-	(25)	(25)	(1)
Due to political subdivisions.....	2	-	(1,352)	-	-	-	-	(1,350)	4
Due to other governments.....	2,409	-	-	-	45	-	1	2,455	(4)
Unearned revenue.....	-	(4,205)	(6,240)	-	-	-	102	(10,343)	-
Self insurance liabilities.....	969	93	180	-	7,006	-	(177)	8,071	(16)
Compensated absences.....	-	(368)	(215)	25	1,200	-	(158)	484	144
Insurance loss liability.....	-	(65,426)	-	-	-	-	6	(65,420)	-
Other postemployment benefit liability.....	(355)	(5,837)	(8,293)	138	(71,716)	-	(5,167)	(91,230)	(6,075)
Nonexchange financial guarantees.....	-	-	-	-	-	841	-	841	-
Net pension liability.....	12,501	(5,249)	(6,655)	-	(39,287)	-	(8,761)	(47,451)	(4,836)
Other current and noncurrent liabilities.....	(1)	355	-	-	-	-	(551)	(197)	-
Deferred inflows.....	1,395	7,803	11,143	-	96,917	-	10,049	127,307	8,561
Total Adjustments.....	91,154	(61,377)	758	4,191	67,734	6,281	33,911	142,652	14,435
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ 1,145,697	\$ (59,240)	\$ 124,029	\$ (42,943)	\$ 218,996	\$ (72,113)	\$ 8,886	\$ 1,323,312	\$ 12,594
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:									
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 37,854	\$ -	\$ 109,972	\$ -	\$ -	\$ 3,209	\$ 151,035	\$ 373
Decrease in investments from changes in investment sale proceeds receivable.....	-	(377)	-	(101,051)	-	-	-	(101,428)	-
Increase in investments from changes in investment purchases payable.....	-	7,478	-	79,019	-	-	-	86,497	-
Increase (decrease) in investments from changes in securities lending obligations.....	-	37,581	-	(27,159)	-	-	(5,107)	5,315	(593)
Decrease in investments from accretion/amortization of investment income.....	-	(1,968)	-	(276)	-	-	-	(2,244)	-
Decrease in investments from other investment income adjustments (net).....	-	(68)	-	(144)	-	-	-	(212)	-
Increase (decrease) in investment income receivable.....	21	(315)	196	502	-	-	81	485	22
Capital assets acquired through installment purchases.....	-	-	-	-	-	-	-	-	1,415
Disposals of capital assets.....	-	-	-	-	(4,918)	-	(3,703)	(8,621)	(7,293)
Amortization of bond premium/discount (net).....	(33,850)	-	-	-	-	(5,190)	(195)	(39,235)	-
Transfers from other funds (accruals).....	-	-	-	-	-	(35,251)	-	(35,251)	-
Transfers to other funds (accruals).....	-	-	-	-	(2,275)	-	-	(2,275)	-
Amortization of deferred refunding loss.....	-	-	-	-	-	220	-	220	-
Gain on bond redemptions.....	16,398	-	-	-	-	-	-	16,398	-
Internal activity elimination for capital financing activities.....	-	-	-	-	-	-	(4,541)	(4,541)	-

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

(Amounts in thousands)

		Investment Trust Fund		
	Pension (and Other Employee Benefit) Trust Funds	INVEST Program for Local Governments (December 31, 2017)	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash—Note 2.....	\$ 259,276	\$ 582	\$ 4,137	\$ 15,108
Cash with fiscal agents.....	-	-	-	16,932
Temporary investments—Note 2.....	93,584	712,622	3,361	781,747
Long-term investments—Note 2.....	575,838	-	2,774,890	2,488,880
Short-term funds—Note 2.....	7,242,816	-	-	-
Corporate obligations—Note 2.....	3,051,438	-	-	-
Collective trust funds—Note 2.....	14,693,054	-	-	-
Real estate—Note 2.....	7,243,366	-	-	-
Alternative—Note 2.....	17,700,237	-	-	-
Securities lending collateral—Note 2.....	3,393,086	-	-	-
Asset-backed securities—Note 2.....	1,880,324	-	-	-
Domestic equities—Note 2.....	23,750,443	-	-	-
International equities—Note 2.....	7,354,825	-	-	-
International private debt securities—Note 2.....	10,127	-	-	-
International public debt securities—Note 2.....	611,712	-	-	-
Mortgage-backed securities—Note 2.....	1,030,972	-	-	-
Private placements—Note 2.....	456,892	-	-	-
Repurchase agreements—Note 2.....	146,404	-	-	-
U.S. Treasury obligations—Note 2.....	3,357,321	-	-	-
U.S. government agency debt securities—Note 2.....	126,426	-	-	-
Receivables (net):				
Taxes—Note 3.....	-	-	-	65,431
Accounts.....	-	-	294	27,579
Investment income.....	253,074	-	5	10,249
Interest on notes and loans.....	1,012	1,101	-	-
Pension contributions.....	1,587,869	-	-	-
Investment sale proceeds.....	655,140	12,500	-	1
Other.....	32,169	-	-	-
Due from other funds—Note 5.....	18,403	-	-	-
Due from pension trust funds—Note 5.....	3,745	-	-	-
Due from component units—Note 5.....	97,786	-	-	-
Due from political subdivisions.....	45,185	-	-	-
Due from other governments.....	32,073	-	-	-
Advances to other funds—Note 5.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,984	-	-	-
Intangible assets.....	42,286	-	-	-
Less: accumulated depreciation and amortization.....	(31,840)	-	-	-
Net depreciable or amortizable capital assets.....	23,430	-	-	-
Other assets.....	-	-	-	3,908,809
TOTAL ASSETS.....	95,728,027	726,805	2,782,687	\$ 7,382,236
DEFERRED OUTFLOWS OF RESOURCES				
TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note 3.....	14,345	-	-	-
LIABILITIES				
Liabilities				
Accounts payable and accrued liabilities.....	166,827	61	1,822	\$ 157,064
Investment purchases payable.....	1,303,077	13,119	251	16,395
Securities lending obligations.....	3,420,220	-	359	27,975
Due to other funds—Note 5.....	513	-	-	-
Due to pension trust funds—Note 5.....	1,460	-	-	-
Due to political subdivisions.....	-	-	192	489,407
Due to other governments.....	-	-	-	8
Interest payable.....	-	781	-	-
Other postemployment benefit liability.....	76,300	-	-	-
Net pension liability.....	60,166	-	-	-
Other liabilities.....	643,233	-	-	6,691,387
TOTAL LIABILITIES.....	5,671,796	13,961	2,624	\$ 7,382,236
DEFERRED INFLOWS OF RESOURCES				
TOTAL DEFERRED INFLOWS OF RESOURCES—Note 3.....	11,272	-	-	-
NET POSITION				
Restricted and held in trust for:				
Pension benefits.....	85,775,515	-	-	-
Postemployment healthcare benefits.....	788,459	-	-	-
Employee salary deferrals.....	3,495,330	-	-	-
INVEST Program participants.....	-	712,844	-	-
Tuition Account Investment Program participants.....	-	-	2,730,654	-
Other.....	-	-	49,409	-
TOTAL NET POSITION.....	\$ 90,059,304	\$ 712,844	\$ 2,780,063	-

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2017)	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Pension:			
Employer.....	\$ 6,997,608	\$ -	\$ -
Employee.....	1,904,987	-	-
Transfer in from other plans.....	120,893	-	-
Total contributions.....	<u>9,023,488</u>	<u>-</u>	<u>-</u>
Investment income:			
Net increase in			
fair value of investments.....	7,795,002	-	105,272
Interest income.....	440,347	8,171	70,524
Dividend income.....	591,910	-	-
Rental and other income.....	952,866	-	-
Total investment activity income.....	<u>9,780,125</u>	<u>8,171</u>	<u>175,796</u>
Less: investment expenses			
Investment activity expense.....	(606,423)	(826)	-
Net investment earnings.....	<u>9,173,702</u>	<u>7,345</u>	<u>175,796</u>
Securities lending activities:			
Income.....	43,408	-	-
Expenses.....	(26,527)	-	-
Total securities lending income.....	<u>16,881</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>9,190,583</u>	<u>7,345</u>	<u>175,796</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares issued in lieu of cash distributions.....	-	6,078	-
Shares purchased/redeemed (net).....	-	55,611	162,146
Net increase in net position from share transactions.....	<u>-</u>	<u>61,689</u>	<u>162,146</u>
TOTAL ADDITIONS.....	<u>18,214,071</u>	<u>69,034</u>	<u>337,942</u>
DEDUCTIONS:			
Benefit payments.....	11,211,639	-	-
Refunds of contributions.....	35,501	-	-
Transfers to other plans.....	136,725	-	-
Administrative expenses.....	123,854	-	7,181
Other expenses.....	4,224	-	2,233
Distributions to participants.....	-	7,345	-
TOTAL DEDUCTIONS.....	<u>11,511,943</u>	<u>7,345</u>	<u>9,414</u>
CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:			
Pension benefits.....	6,312,366	-	-
Postemployment healthcare benefits.....	60,754	-	-
Employee salary deferrals.....	329,008	-	-
INVEST program participants.....	-	61,689	-
Tuition Account Investment Program participants.....	-	-	328,809
Other.....	-	-	(281)
TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST...	<u>6,702,128</u>	<u>61,689</u>	<u>328,528</u>
Net position, July 1, 2017 (restated)—Note 18.....	83,357,176	651,155	2,451,535
Net position, June 30, 2018.....	<u>\$ 90,059,304</u>	<u>\$ 712,844</u>	<u>\$ 2,780,063</u>

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Net Position
Discretely Presented Component Units
June 30, 2018

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2018)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
ASSETS							
Current assets:							
Cash—Note 16.....	\$ 1,116,007	\$ 654,495	\$ 35,224	\$ 134,470	\$ 204,532	\$ 25,598	\$ 2,170,326
Temporary investments—Note 16.....	279,504	2,824	714,451	1,452,152	651,446	363,572	3,463,949
Receivables (net):							
Accounts	68,321	-	48,241	4,737	94,886	3,941	220,126
Investment income.....	4,505	1,922	315	686	-	130	7,558
Interest on notes and loans.....	-	19,140	94,270	-	-	982	114,392
Loans—Note 16.....	-	102,145	752,702	163,965	8,969	52,976	1,080,757
Other	-	-	-	-	49,136	14,119	63,255
Due from primary government—Note 5.....	16,957	-	3	15	259	-	17,234
Due from component units—Note 5.....	-	295	-	122	-	-	417
Due from Federal government.....	-	-	14,779	-	-	50	14,829
Due from political subdivisions.....	184	-	-	-	-	-	184
Inventory.....	17,396	-	-	-	6,000	825	24,221
Prepaid expenses.....	-	-	10,340	-	15,938	2,677	28,955
Other assets.....	-	24,095	69,539	-	22,324	-	115,958
Total current assets	1,502,874	804,916	1,739,864	1,756,147	1,053,490	464,870	7,322,161
Noncurrent assets:							
Restricted cash.....	-	-	-	-	25	3,934	3,959
Long-term investments—Note 16.....	708,304	268,917	-	-	1,133,280	27,518	2,138,019
Receivables (net):							
Loans—Note 16.....	-	3,188,157	3,822,546	2,370,903	31,145	277,428	9,690,179
Due from primary government—Note 5.....	-	-	-	15,000	-	-	15,000
Non-depreciable capital assets—Note 16							
Land.....	380,837	2,454	8,038	-	32,513	1,155	424,997
Construction in progress.....	1,517,692	10,974	-	-	148,117	9,285	1,686,068
Depreciable or amortizable capital assets—Note 16							
Land improvements.....	124,960	-	-	-	315,468	3,095	443,523
Buildings and building improvements.....	980,744	32,091	76,016	-	3,860,919	779,009	5,728,779
Machinery and equipment.....	621,430	10,367	44,291	-	575,355	189,742	1,441,185
Turnpike infrastructure.....	8,809,493	-	-	-	-	-	8,809,493
Library books.....	-	-	-	-	79,502	364	79,866
Other capital assets.....	-	-	-	-	-	1	1
Intangible assets.....	-	-	74,590	-	-	-	74,590
Less: accumulated depreciation and amortization.....	(6,418,160)	(15,298)	(111,910)	-	(2,028,180)	(378,033)	(8,951,581)
Net depreciable or amortizable capital assets.....	4,118,467	27,160	82,987	-	2,803,064	594,178	7,625,856
Other assets.....	168,267	31,424	-	-	151,133	4,826	355,650
Total noncurrent assets	6,893,567	3,529,086	3,913,571	2,385,903	4,299,277	918,324	21,939,728
TOTAL ASSETS.....	8,396,441	4,334,002	5,653,435	4,142,050	5,352,767	1,383,194	29,261,889
DEFERRED OUTFLOWS OF RESOURCES							
TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note 16	533,478	32,978	83,324	1,178	214,403	18,076	883,437

Commonwealth of Pennsylvania
Statement of Net Position
Discretely Presented Component Units
June 30, 2018

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2018)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	\$ 215,390	\$ 4,869	\$ 148,344	\$ 1,031	\$ 204,674	\$ 12,229	\$ 586,537
Securities lending obligations.....	-	-	-	8,936	-	260	9,196
Due to primary government—Note 5.....	-	-	-	13,468	84	14,812	28,364
Due to component units—Note 5.....	-	122	-	296	-	-	418
Due to other governments.....	-	-	-	1,732	-	2	1,734
Interest payable.....	262,734	23,486	5,709	-	7,856	3,079	302,864
Unearned revenue.....	74,627	-	54	-	72,527	2,770	149,978
Notes payable—Note 16.....	-	1,000	240,000	50,371	-	-	291,371
Bonds payable—Note 16.....	-	-	-	6,260	74,270	-	80,530
Revenue bonds payable—Note 16.....	356,030	120,282	-	-	-	25,615	501,927
Capital lease/installment purchase obligations.....	-	-	-	-	4,075	105	4,180
Self insurance liabilities.....	4,259	-	-	-	4,630	-	8,889
Compensated absences.....	8,731	-	-	101	11,401	543	20,776
Other financing obligations—Note 16.....	-	-	4,230	-	-	78	4,308
Other postemployment benefit liability—Note 16.....	-	-	-	119	59,098	306	59,523
Other liabilities.....	-	119,635	69,539	-	236,819	35	426,028
Total current liabilities.....	921,771	269,394	467,876	82,314	675,434	59,834	2,476,623
Non-current liabilities:							
Due to primary government—Note 5.....	-	-	-	152,851	-	-	152,851
Unearned revenue.....	731	-	-	-	2,030	-	2,761
Student loan auction rate security bonds payable—Note 16.....	-	-	11,100	-	-	-	11,100
Notes payable—Note 16.....	-	24,750	4,097,679	-	318,474	-	4,440,903
Bonds payable—Note 16.....	-	-	-	-	1,863,234	-	1,863,234
Revenue bonds payable—Note 16.....	12,956,241	2,864,823	-	117,978	-	137,428	16,076,470
Capital lease/installment purchase obligations.....	-	-	-	-	66,727	115	66,842
Other financing obligations—Note 16.....	-	-	21,377	-	-	2,632	24,009
Compensated absences.....	7,143	-	23,255	430	114,800	2,593	148,221
Self insurance liabilities.....	35,203	-	-	-	17,818	-	53,021
Other postemployment benefit liability—Note 16.....	-	83,656	357,062	7,780	2,265,515	49,431	2,763,444
Net pension liability—Note 9, 16.....	329,112	21,220	413,878	6,105	937,757	27,677	1,735,749
Other liabilities.....	154,550	316,474	-	-	94,998	145	566,167
Total non-current liabilities.....	13,482,980	3,310,923	4,924,351	285,144	5,681,353	220,021	27,904,772
TOTAL LIABILITIES.....	14,404,751	3,580,317	5,392,227	367,458	6,356,787	279,855	30,381,395
DEFERRED INFLOWS OF RESOURCES							
TOTAL DEFERRED INFLOWS OF RESOURCES—Note 16	163,930	36,265	123,016	1,167	269,383	7,285	601,046
NET POSITION							
Net investment in capital assets.....	(250,112)	1,588	91,025	-	798,665	600,488	1,241,654
Restricted for:							
Capital projects.....	260,524	-	-	3,774,603	37,405	-	4,072,532
Debt service.....	43,954	145,215	341,848	-	-	54,694	585,711
Economic development.....	-	-	-	-	-	105,628	105,628
Higher education.....	-	-	33,035	-	523,895	-	556,930
Other purposes.....	-	603,595	-	-	-	26,642	630,237
Unrestricted.....	(5,693,128)	-	(244,392)	-	(2,418,965)	326,678	(8,029,807)
TOTAL NET POSITION.....	\$ (5,638,762)	\$ 750,398	\$ 221,516	\$ 3,774,603	\$ (1,059,000)	\$ 1,114,130	\$ (837,115)

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2018)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
Expenses.....	\$ 1,890,280	\$ 603,415	\$ 1,076,629	\$ 76,243	\$ 2,418,910	\$ 182,630	\$ 6,248,107
Program revenues:							
Charges for sales and services.....	1,201,274	167,325	642,572	36,407	1,438,961	67,947	3,554,486
Operating grants and contributions.....	41,112	456,687	351,209	80,953	953,524	81,744	1,965,229
Capital grants and contributions.....	207,804	-	-	84,508	33,144	22,550	348,006
Total program revenues.....	1,450,190	624,012	993,781	201,868	2,425,629	172,241	5,867,721
Change in net position.....	(440,090)	20,597	(82,848)	125,625	6,719	(10,389)	(380,386)
Net position, July 1, 2017 (restated)—Note 16, 18.....	(5,198,672)	729,801	304,364	3,648,978	(1,065,719)	1,124,519	(456,729)
Net position, June 30, 2018.....	\$ (5,638,762)	\$ 750,398	\$ 221,516	\$ 3,774,603	\$ (1,059,000)	\$ 1,114,130	\$ (837,115)

- The notes to the financial statements are an integral part of this statement. -

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The basic financial statements of the Commonwealth of Pennsylvania (the Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments. There may be rounding differences between amounts reported in the basic financial statements section and amounts reported in other sections of the Comprehensive Annual Financial Report (CAFR). Also note, all amounts in the CAFR are stated in thousands unless otherwise indicated.

Government-wide Financial Statements

Government-wide financial statements report the financial position and results of activities for the Commonwealth as a whole, except for its fiduciary activities. Separate columns are presented for governmental and business-type activities within the primary government (PG) and discretely presented component units (DPCU). The statement of net position reports all assets, deferred outflows of resources, liabilities and deferred inflows of resources for the primary government of the Commonwealth. The statement of activities reports the total cost of providing governmental services, by function, net of related program revenues; and after including general revenues, reports whether the total net position of the government increased or decreased during the fiscal year ended June 30, 2018. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (CU) that are fiduciary in nature because they are held for the benefit of others and are not available to address activities or obligations of the PG. Governmental activities within government-wide financial statements include specific balances and transactions related to internal service funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all enterprise funds and two blended CUs.

Financial Reporting Entity

The basic financial statements include all funds of the PG, which for reporting purposes represents the Commonwealth, as well as the CUs determined to be included in the Commonwealth's financial reporting entity. A fund is a self-balancing set of accounts, segregated for specific purposes. A CU is a legally separate organization, the activity of which must be included in the Commonwealth's reporting entity.

The basic financial statements include the government-wide financial statements and fund financial statements. The fund financial statements present governmental, proprietary and fiduciary financial statements. Reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-level financial statements to the government-wide financial statements.

School districts, local governments, counties and numerous authorities are considered separate, stand-alone primary governments or organizations. Although these organizations may receive significant PG operating and/or capital subsidies, they have been excluded from the financial reporting entity because they are governed by popularly-elected officials or appointees and are not fiscally dependent on the PG. The PG provides significant subsidies and appoints a portion, but not a voting majority, of the governing boards at the following four universities (commonly referred to as state related): Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University. However, given the absence of PG appointment of a governing board voting majority and the lack of fiscal dependency, these universities are excluded from the financial reporting entity.

Primary Government

For financial reporting purposes, the Commonwealth is a primary government. The PG includes all publicly elected members of the executive, legislative, and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards, and organizations that are not legally separate.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Component Units**

CUs are legally separate organizations for which the Commonwealth is either financially accountable or the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. CUs are reported either discretely as an aggregated separate column in the government-wide financial statements or blended in both the government-wide and fund financial statements as if they were funds of the PG. The decision to include and how to report a CU in the Commonwealth's reporting entity is based on several criteria, including legal standing, debt responsibility, fiscal dependency, and financial accountability. The Commonwealth reports nineteen CUs, fifteen of which are reported as DPCUs, two as CU fiduciary funds and two as blended CUs. The financial information for the DPCUs reported in the aggregate in the government-wide financial statements are presented separately in the combining financial statements section of the CAFR. CUs classified as fiduciary funds are aggregated in the pension (and other employee benefit) trust funds column in the fund financial statements.

More detailed information for the individual CUs is available from the CUs' separately issued financial statements available by writing to the Commonwealth's Chief Accounting Officer, 555 Walnut Street, Ninth Floor, Harrisburg, PA 17101-1921. The following paragraphs are a brief description of the Commonwealth's CUs. Note 16 and the combining financial statements contain additional DPCU information.

Blended Component Units

A blended CU is an entity that functions as an integral part of the PG and as a result the entity's financial data is blended with the financial data of the PG. The following two entities are reported as blended CUs because the total debt of the CUs are expected to be repaid entirely or almost entirely with resources of the PG.

Commonwealth Financing Authority (CFA) - The CFA administers and funds economic stimulus programs. The programs offer financial assistance through loans, grants, guarantees, sales, leases, investments, lines and letters of credit, and other authorized financial arrangements. The CFA is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing. The PG appoints all seven voting members of the Board of Directors, four by appointment, whom may be removed at will, and three ex-officio board members, the Secretary of Community and Economic Development, Secretary of the Budget, and Secretary of Banking. A Service Agreement entered into by the CFA and the Department of Community and Economic Development (DCED), a PG agency, in 2005 states that the DCED shall request annual appropriations from the General Assembly in amounts necessary to pay the debt service requirements of the CFA. CFA's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the PG.

Philadelphia Regional Port Authority (PRPA) - The PRPA operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains funding from the PG. The PRPA also issues revenue bonds to finance its activities. The Governor must approve the issuance of its debt. The PG appoints all eleven voting board members and can remove board members at will. The PG provides operating and capital subsidies and pays rent in amounts equal to PRPA debt service requirements. The PRPA's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the PG.

Fiduciary Fund Component Units

A fiduciary fund CU is an entity that functions as an integral part of the PG but because the funds are held for the benefit of others and are not available to address activities or obligations of the PG, they are reported separately throughout this financial report.

State Employees' Retirement System (SERS) - The SERS is a public employee retirement system that provides pension benefits to Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees are required to join the SERS). The PG is responsible for substantially all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG. The SERS administers both a defined benefit plan and a deferred compensation plan. The defined benefit plan is funded through a combination of

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

employee contributions, employer contributions and investment earnings. The deferred compensation plan is funded by voluntary employee contributions and investment earnings. The SERS is reported for its fiscal year ended December 31, 2017.

Public School Employees' Retirement System (PSERS) - The PSERS was created to administer and provide pension benefits to public school employees in Pennsylvania. The PSERS covers almost all such employees. Covered elementary and secondary school employers make employer contributions, with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered employees of higher education institutions and state-owned schools are shared equally by covered employers and the PG; all covered public school employees also contribute. The PG appoints eight of fifteen voting board members; the seven other members are appointed by active or retired public school employees or are appointed by public school boards. In addition to making significant contributions as a governmental nonemployer contributing entity for the PSERS plan, the PG guarantees the payment of all annuities and other pension benefits. This represents a compelling PG financial burden.

Discretely Presented Component Units

DPCUs are legally separate organizations for which the elected officials of the PG are financially accountable. In addition, DPCUs can be other organizations of which the nature and significance of their relationship with the PG is such that exclusion of these organizations from the PG's financial statements would be misleading. DPCUs do not function as an integral part of the PG and therefore are presented in separate (discrete) columns.

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain, and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting board members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation, which represents a financial benefit to the PG. The Governor must approve the issuance of all PTC debt, by which the PG can impose its will. The PG is not obligated for all PTC debt, but the PG could take certain actions to satisfy bondholders. As further disclosed in Note 14 to the Financial Statements, the Commonwealth is contingently liable for \$980,241 of PTC debt at fiscal year-end. The PTC is reported for its fiscal year ended May 31, 2018.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit older adults, persons with disabilities, and low- and moderate-income individuals and families. The PG appoints all voting board members. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Human Services, and the State Treasurer serve as ex-officio members. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed to avoid a default on the PHFA debt. This moral obligation represents a financial burden to the PG. The PHFA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Through June 30, 2018, lending institutions and post-secondary schools were involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions and the federal government. The PG appoints all twenty voting board members. A significant PG financial burden exists through subsidizing the PHEAA grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

Pennsylvania Infrastructure Investment Authority (PENNVEST) - The PENNVEST makes grants and low-interest loans to local governments and authorities, businesses, and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the federal government, and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. The PENNVEST operates closely with the Department of Environmental Protection. The PG appoints all voting board members. By issuing general obligation debt and providing the proceeds to PENNVEST as capital contributions, a significant financial burden exists. The PG is not obligated for

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

State System of Higher Education (SSHE) - The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants, and PG subsidies. The PG appoints all twenty voting board members, which in turn appoint the university presidents and chancellor. Five of the appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE which creates a significant financial burden. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (PHEFA) - The SPSBA and the PHEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public/private colleges and universities. Neither the PG nor the Authorities are obligated for debt service payments, these bonds are repaid solely from lease/loan payments from the schools. All nine voting members of the SPSBA and the PHEFA governing boards are PG's high ranking officials being ex-officio board members by virtue of their position. The PG's Department of Education approves the SPSBA's projects, which indicates imposition of will.

Ben Franklin Technology Development Authority (BFTDA) - The BFTDA encourages and coordinates programs and investments which advance the competitiveness of Commonwealth companies in the global economy. The BFTDA, staffed by the Department of Community and Economic Development (DCED), provides vital seed capital, technology commercialization and entrepreneurial support services to the technology sector of the Commonwealth's economy. The PG appoints all twenty-one voting members of the governing board. The PG also provides funding on an annual basis, which is a financial burden to the PG.

Port of Pittsburgh Commission (PPC) - The PPC promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities. The PG appoints all fifteen voting members of the governing board and can impose its will by removing board members at will. The PG provides funding for the PPC, but is not required to do so.

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PG appoints the majority of the governing board by appointing three of five voting board members. The PG also provides a significant portion of funding for the PSDC, which is a financial burden to the PG. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction, and job recruitment and training costs. The PSDC is reported for its fiscal year ended December 31, 2017.

Pennsylvania Industrial Development Authority (PIDA) - The PIDA was created to provide employment opportunities throughout the Commonwealth by attracting businesses and investors to the Commonwealth and retaining existing businesses. The PIDA provides low interest rate loans to prospective and existing businesses focusing on areas of the Commonwealth where unemployment rates are the highest. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA works closely with the Department of Community and Economic Development. The PG appoints all voting board members. The PG has provided capital contributions and "excess" PIDA funds are transferred to the **General Fund**, which represents a financial burden and benefit to the PG. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Thaddeus Stevens College of Technology (TSCT) - The TSCT is governed by a Board of Directors that is a body politic and corporate constituting a public corporation, making the TSCT an entity legally separate from the PG. The Governor, with the advice of the Senate, appoints nine of the ten voting Board members, and the Secretary of Education serves as an ex-officio member. The PG has some ability to influence the structure and/or content of the TSCT's budget through overview of the Department of Education. The TSCT presents a financial burden to the PG, as the PG appropriates funds for TSCT operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pennsylvania Convention Center Authority (PCCA) - The PCCA was created to operate the Pennsylvania Convention Center located in the City of Philadelphia. The PG may impose its will because it has final approval authority over the PCCA operating and capital budgets and the PCCA may not incur debt without the prior written approval of the PG. The PG financed a portion of the PCCA facility in prior fiscal years and during the fiscal year ended June 30, 2018 as well as paying other periodic amounts to the PCCA, thus there is a financial burden on the PG.

Pennsylvania Economic Development Financing Authority (PEDFA) - The PEDFA was created to lend money primarily to businesses to promote economic development in the Commonwealth. The PEDFA issues revenue bonds to fund specific projects and repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDFA is not obligated to bondholders beyond amounts received by the Authority from the funded projects. Financial statement information for the PEDFA is not reported because the majority of the activity involves conduit debt. The PG appoints eleven of the sixteen board members and five members are ex-officio. The PG is not obligated for the PEDFA debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of PEDFA revert to the Commonwealth. Although the PEDFA issues only conduit debt and therefore there is no direct financial benefit or burden attributable to the PG, the ultimate purpose of the PEDFA is to benefit the PG by supporting and growing the tax base of the PG through economic development loans. Therefore because the PG is the ultimate beneficiary of the growing tax base, provides all management and administrative services to the PEDFA, as well as appoints the entire board, it would be misleading to exclude the PEDFA from the CAFR.

Pennsylvania Energy Development Authority (PEDA) - The PEDA was created to promote the development of energy sources within the Commonwealth. PEDA has two distinct functions: (1) the issuance of non-recourse debt and (2) the management of the Energy Development Fund. The Energy Development Fund is reported as an activity of the PEDA. The non-recourse debt that was previously issued by PEDA has been satisfied. The PG appoints thirteen of the nineteen board members and six members are ex-officio. The Governor must approve the issuance of PEDA debt. By legislative authority, the PEDA is required to take action to deposit excess moneys into the Commonwealth's **General Fund** and the PEDA may requisition moneys in the amounts necessary to pay administrative costs, which results in a financial benefit and burden to the PG.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the Commonwealth appoints a voting majority of the board, but the Commonwealth is not financially accountable for the entity.

The Philadelphia Parking Authority (Authority) is financially reported as a DPCU unit in the City of Philadelphia's financial reporting entity. Act 22 of 2001 provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board.

The Philadelphia School District (School District) is financially reported as a DPCU in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 640 amending Act 46 of 1999, providing for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

Patient Safety Authority is charged with taking steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities, and birthing centers. The PG appoints all eleven members of the Board; the Pennsylvania Physician General, who serves as the Board chair, six members appointed by the Governor representing specific professional occupations, and four members appointed by the General Assembly. Although the Pennsylvania Department of Health approves the recommendations that will be adopted, the approval is not substantive.

Insurance Fraud Prevention Authority (IFPA) assists in the prevention, discovery, investigation, and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties, and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ex-officio as one of these six members. Through a contract (exchange transaction) a significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General.

Joint Venture

A joint venture is a legal entity that results from a contractual arrangement owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. Joint control means no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. The purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services. The Pennsylvania Employees Benefit Trust Fund is the only joint venture in which the Commonwealth participates.

The Pennsylvania Employees Benefit Trust Fund (PEBTF) was created by the Commonwealth, through its Office of Administration, using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides active Commonwealth employee healthcare benefits and is the Commonwealth's third-party administrator for the Commonwealth's retiree healthcare programs. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control the governing board or the PEBTF; administration is jointly and equally shared. The Commonwealth and certain of its employees pay for the cost of providing benefits. Contribution amounts are based on the terms contained in collective bargaining agreements. Employee unions are not financially responsible for making contributions. Neither the Commonwealth nor the employee unions have an equity interest or any ongoing financial interest in the PEBTF. Aside from its obligation to make periodic, established contributions, the Commonwealth is not responsible for any obligations of the PEBTF.

Primary Government – Fund Structure

Fund Accounting: In governmental accounting, a fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts, recording cash and/or other resources together with all related liabilities and equities. The purpose of a fund is for carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or, in certain rare cases, by administrative action.

The Commonwealth transactions are recorded in three fund types: governmental, proprietary and fiduciary funds. In addition, within each fund type there are various categories of funds. The governmental funds include two funds that qualify as major funds and the proprietary funds include six funds that qualify as major funds. Major funds are displayed in bold print in the Notes to the Financial Statements.

Governmental Funds

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, and capital projects funds.

The **General Fund** is the Commonwealth's main operating fund. The **General Fund** accounts for all financial resources except those required to be accounted for in another fund.

Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The **Motor License Fund**, one of several special revenue funds, is the only special revenue fund reported as a major fund.

The **Motor License Fund**, a major fund, receives revenues from liquid fuels taxes, licenses and fees on motor vehicle registrations and operating privileges, aviation fuel taxes, federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects, and other miscellaneous highway revenues. The **Motor License Fund** makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt service funds account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. There are no major debt service funds.

Capital projects funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. There are no major capital projects funds.

Proprietary Funds

The Proprietary funds are used to account for activities that receive significant support from fees and charges. They focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles, similar to those used by private sector businesses, are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and internal service funds.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity;
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), be recovered with fees and charges; or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The **State Lottery Fund**, **State Workers' Insurance Fund**, **Unemployment Compensation Fund**, **State Stores Fund**, **Tuition Payment Fund**, and **Commonwealth Financing Authority** are enterprise funds reported as major funds.

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies, and federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, PACENET, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workers' Insurance Fund (SWIF)** was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. The **SWIF** is subject to underwriting rules, classifications, and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from the **SWIF**. The **SWIF** is reported for its fiscal year ended December 31, 2017.

The **Unemployment Compensation (UC) Fund** is comprised of four basic components: the Employer Contribution Fund, the UC Benefit Payment Fund, the Special Administration Fund, and the UC Trust Fund. The purpose of these funds is to collect employer assessments for unemployment compensation and transfer the assessments to the federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants.

The **State Stores Fund** accounts for the general operations of the Pennsylvania Liquor Control Board. Revenue is derived primarily from the sale of wine and spirits. Expenses include all costs associated with the operation and administration of the liquor store system and enforcement of the Liquor Control Law.

The **Tuition Payment Fund** offers a college savings program allowing participants to purchase college credits at the current year rates. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions, and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The **Commonwealth Financing Authority (CFA)** is a blended CU. Please see the aforementioned description for the **CFA**.

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the Purchasing Fund. The Purchasing Fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies provided. Also, the Purchasing Fund receives proceeds from the sale of vehicles and unserviceable property as well as from investment income.

The Manufacturing Fund uses inmate labor to produce items for the Department of Corrections and other Commonwealth agencies. The revenue source is the sale of items produced or services provided. Expenses include raw materials, inmate labor, and general and administrative costs.

Fiduciary Funds

Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party and that cannot be used to support that government's own programs.

Trust and agency funds account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include pension (and other employee benefit) trust funds, an investment trust fund, a private purpose trust fund, and agency funds.

The State Employees' Retirement System (SERS), a pension trust fund, is a CU and accounts for the payment of retirement, disability, and death benefits to members of the SERS and their beneficiaries. The Deferred Compensation Fund is a pension trust fund that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457. The SERS and the Deferred Compensation Fund are reported for their fiscal years ended December 31, 2017.

The Public School Employees' Retirement System (PSERS), a pension trust fund, is a CU and was created to administer and provide pension benefits to public school employees in Pennsylvania.

The INVEST Program for Local Governments is an investment trust fund that invests amounts owned by local governments, school districts, and not for profit entities. The INVEST Program for Local Governments is reported for its fiscal year ended December 31, 2017. Audited financial statements for that Program are available through the Chief Accounting Officer.

The Tuition Account Investment Program is a private purpose trust fund that invests amounts on behalf of participants who are saving for college tuition costs. Audited financial statements for that Program are available through the Chief Accounting Officer.

The Monetary Penalty Endowments Trust Fund, a private purpose trust fund, was established in accordance with Act 1 of 2013 to account for the monetary penalty payments from the Pennsylvania State University.

The Statutory Liquidator Fund, the largest agency fund, converts the remaining assets of insolvent insurance companies to cash for remittance to policyholders, creditors, and stockholders. The order of distribution of the assets is established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a Commonwealth Court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders, and stockholders.

The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Medical Care Availability and Reduction of Error Fund (Mcare), created by Act 13 of 2002, is used to pay claims against participating health care providers for losses or damages awarded in medical professional liability actions against them in excess of the basic insurance coverage required by the act.

The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and firefighter pension costs.

Measurement Focus and Basis of Accounting – Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the statement of net position reports all assets (including capital assets, such as heavy trucks, highways, and bridges), all liabilities regardless of when payment is due and all deferred inflows and outflows of resources. The statement of activities includes all revenues and expenses (regardless of when cash is respectively received or paid). The statement of activities reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function, which generates the revenue. Charges for goods or services, most investment income, grant revenues, and fines are reported as program revenues. Neither program revenues nor expenses are reported for donated works of art, historical treasures or similar assets received during the fiscal year because such donations are not material. All tax revenues, except for unemployment compensation tax revenues which are reported as charges for sales and services program revenues, are classified as general revenues in the statement of activities. The statement of activities also reports governmental activities expenses that include governmental fund expenditures (those which are not eliminated or reclassified) and current year depreciation on capital assets, which recognizes the cost of ordinary use of the assets over their estimated useful lives. The costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the statement of activities when incurred, regardless of when the benefits are used or the liabilities are paid.

Measurement Focus and Basis of Accounting – Fund Financial Statements**Governmental Funds**

The **General Fund**, special revenue funds, debt service funds, and capital project funds (governmental funds) are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are presented on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year that they become susceptible to accrual (both measurable and available to pay current fiscal year liabilities). The Commonwealth accrues the following major revenue sources that are both measurable and available (available is defined as being received within 60 days of fiscal year-end for these revenues): sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, inheritance taxes, liquor taxes, investment income, institutional revenues, and sales of goods and services. Grant revenues, including federal government grant revenues, are recognized when earned and available; accrued amounts due from the federal government are treated as available in the period in which all applicable eligibility requirements have been met. Revenues from most other sources are recognized when received.

Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations and other long-term liabilities are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures are reported for amounts accrued at fiscal year-end that normally would be liquidated with expendable available financial resources.

Proprietary Funds and Fiduciary Funds

The enterprise, internal service (proprietary funds), pension (and other employee benefit) trust funds, the investment trust funds and private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accounting. Under this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of these funds are included on the statement of net position. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Proprietary funds classify revenues and expenses as either operating or non-operating, depending on the nature of the activities reported in the individual fund. The majority of transactions are reported as operating; however, investment income and grants are reported as non-operating revenues by all proprietary funds. Fiduciary funds, except for agency funds, classify revenues and expenses as either additions or deductions to net position.

Agency funds, a fiduciary fund type, use the accrual basis of accounting to report assets and liabilities. Agency funds have no measurement focus and do not report operating statements.

Significant Accounting Policies

Pooled Cash: In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

Cash Equivalents: No investments that could be defined as cash equivalents have been treated as such on the statement of cash flows; therefore, only net changes in cash are displayed.

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of internal investment pools that seek to provide preservation of principal, liquidity, diversification, and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary or long-term investments; the pools themselves are not financially reported. Periodic earnings are allocated to specific participating funds. Several individual funds have statutory authority to own investments outside the Commonwealth Investment Program (CIP). The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements and is reported as an investment trust fund.

Temporary Investments: The Treasury Department manages the temporary investment pools. Practically all individual funds that are part of PG are participants in the temporary investment pools. Except for the INVEST Program, temporary investments are reported at fair value. Such investments, which are expected to be realized in cash within twelve months after fiscal year-end or less, are reported as temporary investments. The Treasury Department accounts for each participating fund's equity (considered "shares") on a daily basis. "Share" balances of participating funds may fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund. These investments are considered internal investment pools. Periodic earnings are allocated to specific participating funds based on the weighted daily average share balance.

The INVEST Program reports all investments at amortized cost, which approximates fair value. The INVEST Program meets the provisions related to portfolio quality, custodial credit risk, and shadow pricing, which are required for an external investment pool to report investments at amortized cost.

Long-Term Investments: Investments expected to be realized in cash after more than twelve months from fiscal year-end are reported as long-term investments. Most long-term investments are reported at fair value, those not recorded at fair value are recorded at net asset value. In addition to long-term investments held by funds with statutory authority to own investments outside the CIP, the Treasury Department manages a long-term investment pool in which a number of individual funds participate. Income is allocated periodically to specific participating funds based on the net asset value of a fund's shares at redemption date. Income is also distributed periodically based on the net asset value of the pool and participant fund share balances on the income declaration date.

Inventories and Prepaid Expenses: Inventories of operating materials and supplies are reported by certain governmental activities. Operating and merchandise inventories are reported by proprietary funds and the SSHE, a DPCU. Operating materials

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and supplies inventories are valued at cost (first-in, first-out) and merchandise inventories are reported at the lower of cost or market using weighted average cost. In the governmental fund financial statements, inventories are accounted for using the purchases method whereby expenditures are reported for current-year purchases of operating materials and supplies. Prepaid expenses are not reported in governmental fund financial statements.

Capital Assets and Depreciation: General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the statement of net position. Donated capital assets are reported at acquisition value at the time of donation. The cost of all land is reported; for other types of capital assets, the following minimum dollar reporting thresholds are used:

Land improvements, buildings and building improvements.....	\$	25
Machinery and equipment.....		25
Highway and bridge infrastructure		100
All other infrastructure		25
Computer software		1,000
Trademarks, patents and copyrights.....		100

Commonwealth agencies maintain inventories of all their respective capital assets, including assets acquired for less than the above minimum amounts, which are not capitalized in the basic financial statements.

The Pennsylvania Historical and Museum Commission (PHMC) owns diverse collections of historical, architectural, prehistoric and artistic artifacts, archives and manuscripts and scientific specimens. The Commonwealth does not capitalize these collections, as they meet the following criteria: PHMC's mission in acquiring these collections is for the purpose of preservation, education, research, and exhibition; PHMC secures and preserves all collections in order to adequately preserve Commonwealth history; and all acquisitions and deaccessions must be approved by the PHMC Collections Committee and the PHMC Executive Director. All amounts received from the deaccessioning of artifacts/collections are placed in a restricted account that can only be used for the purchase of new artifacts/collections.

The Commonwealth does not capitalize expenditures to protect farmland under the Agricultural Area Security Law since participating counties within the Commonwealth play a much greater role in administering the Law than the Commonwealth. Capital assets (excluding land and construction in progress) are depreciated/amortized over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation/amortization expense is reported in the statement of activities as part of direct functional expenses; all depreciation/amortization is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation/amortization is reported on the straight-line basis over the capital assets' estimated useful lives. Depreciation expense associated with capital assets procured under capital lease arrangements is reported as part of depreciation expense for other capital assets. The following useful lives are used for PG governmental activities:

Buildings and building improvements.....	40 years
Improvements other than buildings.....	30 years
Machinery and equipment.....	10 years
Highway heavy equipment.....	15 years
Highway infrastructure	25 years
Bridge infrastructure	50 years
Dams, dikes and pier infrastructure	50 years
Other infrastructure	20 years
Computer software	3 – 30 years
Trademarks, patents and copyrights.....	3 – 40 years

PG business-type activities report depreciation/amortization expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings, and improvements owned by the Commonwealth and used by the SSHE, a DPCU, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities capital assets. This reporting treatment is based on the title for the SSHE-used real property remaining with the PG. Based on agreements between the PG, through its Department of General Services (DGS), and SSHE universities in 2002, DGS effectively transferred occupancy, custody, and control to the SSHE universities and the SSHE universities assumed financial responsibility and legal liability for the SSHE-used real property but the Commonwealth retained title.

Capital Asset Impairments: Through a variety of policies, Commonwealth management requires agencies to perform periodic assessments of general and other capital assets. Beyond initial reporting (upon acquisition), agencies must adhere to continuing policies regarding usability, function, and condition of reported capital assets. With few exceptions, Commonwealth agencies using capital assets must report impairments promptly.

Deferred Outflows of Resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources have a natural debit balance and, therefore increase net position similar to assets.

Deferred Inflows of Resources are an acquisition of net position by the government that is applicable to a future reporting period. Deferred inflows of resources have a natural credit balance and, therefore decrease net position similar to liabilities.

Liabilities: Governmental, business-type, and proprietary liabilities in the statement of net position, are presented as either “current” or “noncurrent.” Liabilities are segregated into these categories by establishing an average maturity for the liability class and classifying the portion due within one year of the statement date as current and the portion due beyond one year of the statement date as noncurrent. For liabilities without specific maturity or due dates, estimates are made of maturities. Liabilities without specific due dates include those related to self-insurance and compensated absences.

Self-Insurance: The Commonwealth is self-insured for annuitant medical/hospital benefits, employee disability and tort claims. Note 8 provides disclosures for self-insurance liabilities and property loss coverage.

Compensated Absences: Most employees earn annual leave, depending on length of credited service, from between 4.24% to 11.55% of regular hours paid. Generally, a maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Most Employees earn sick leave based on 4.24% to 5.00% of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Most retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

<u>Days Available at Retirement</u>	<u>Percentage Payment</u>	<u>Maximum Days Paid</u>
0-100	30%	30
101-200	40%	80
201-300	50%	150
over 300 (in last year of employment)	100% of days over 300	13

Some collective bargaining agreements may have different accrual rates and payouts.

Accumulated annual and sick leave liabilities payable with expendable available financial resources are reported by governmental funds; all compensated absences payable are reported by governmental and business-type activities and fiduciary funds.

Pollution Remediation Obligations: In the government-wide statement of net position, pollution remediation obligations are reported at the current value of expected outlays to fund remediation costs using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible estimated amounts and uses all expectations about possible cash flows on a site-specific basis. Such ranges are weighted within ‘most likely’, ‘worst case’ and/or ‘best case’ scenarios and are based on actual remediation cost experience, remediation cost estimates and/or discrete cost remediation treatment possibilities. All reported obligation amounts are estimates and are subject to change resulting

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

from price increases or reductions, technology, or changes in applicable laws or regulations. In cases where remediation activities beyond site investigation/assessment or feasibility studies have not begun, remaining remediation costs are not reasonably estimable and liabilities for such cases are not reported.

Interfund Transactions: The Commonwealth has the following types of transactions between funds; between the PG governmental activities and business-type activities; and between the PG and DPCUs:

Statutory Transfers—Legally required transfers from specific funds that subsidize receiving fund programs, when paid are reported as transfers in by the receiving fund and as transfers out by the disbursing fund. Legally required payments from the PG to CU organizations are reported when paid as governmental activities program expenses and as either operating grants and contributions or capital grants and contributions by CU organizations. Interfund balances (amounts due from/to other funds) are reported for unremitted, due and payable, transfers at fiscal year-end. In the statement of activities, only transfers between governmental activities and business-type activities are reported as transfers.

Transfers of Expenditures (Reimbursements)—Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues and expenditures or expenses of the providing (reimbursed) fund are treated as reimbursements (above) and are eliminated. Expenditures or expenses of the using (reimbursing) fund are reported in fund financial statements and the statement of activities.

Interfund Balances: Amounts due from/to other funds are reported for unremitted charges or collections at fiscal year-end that arise in connection with routine, ordinary governmental fund and proprietary fund operations. The composition of the Commonwealth's interfund receivables/payables at June 30, 2018 and transfers in/out during the fiscal year ended June 30, 2018 are presented in Note 5. Interfund balances between two governmental funds or two proprietary funds are not reported in the statement of net position.

Investment Income: Investment income includes interest, dividends, realized gains and losses, and the change in the fair value of investments, if any, during the fiscal year. If the change in the fair value of investments decreases during any specific fiscal year, such decreases could cause reported overall investment income to be negative within specific funds. Similarly, realized losses could cause reported overall investment income to be negative within specific funds. Certain investment income from specific funds' investments is assigned to another fund and is reported by the receiving fund if the income is transferred for legal or contractual reasons; otherwise, the investment income is reported as a transfer by the receiving fund.

Grant and Intergovernmental Revenues: Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred and the revenue is available to pay expenditures. Intergovernmental revenues represent revenues received principally from the federal government and include revenues received from the PTC, a DPCU, based on Act 44 of 2007 and Act 89 of 2013, and the related lease and funding agreement between the PTC and the PG Department of Transportation.

Pension Costs, Liabilities and Deferred Items: The Commonwealth participates as an employer in the State Employees' Retirement System (SERS) pension plan and nonemployer contributing entity in the Public School Employees' Retirement System (PSERS) pension plan. The Commonwealth's policy is to fund employer contributions to the SERS and PSERS as required by their Boards, through statutory authority, or as required based on other applicable statutory requirements. As prescribed by GASB 68, actuarial valuations were prepared to value the total and net pension liabilities, deferred outflows of resources, and deferred inflows of resources for each pension plan. In the government-wide statement of net position and the proprietary fund statement of net position the Commonwealth will report its share of the net pension liability, deferred outflows of resources, and deferred inflows of resources at the actuarial present value. The changes in the net pension liability will be recognized in pension expense. Deferred outflows of resources and deferred inflows of resources balances will be amortized over a closed period matching the expected remaining service life of all employees or a closed period of five years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Postemployment Benefits (OPEB) Costs, Liabilities and Deferred Items: The Commonwealth participates as an employer in five OPEB plans: The Retired Employees Health Program (REHP), the Retired Pennsylvania State Police Program (RPSPP), the Unified Judicial System's Postemployment Medical Plan (Judiciary), Pennsylvania House of Representatives Postemployment Benefits Plan (House), and the Senate of Pennsylvania Other Postemployment Benefits Plan (Senate). The Commonwealth participates as a governmental nonemployer contributing entity in the Public School Employees' Retirement System Health Insurance Premium Assistance Program (Premium Assistance). As prescribed by GASB 75, actuarial valuations were prepared to value the total and net OPEB liabilities, deferred outflows of resources, and deferred inflows of resources for all six OPEB plans. In the government-wide statement of net position and the proprietary fund statement of net position the Commonwealth reports its share of the OPEB liability, deferred outflows of resources, and deferred inflows of resources at the actuarial present value. The changes in the OPEB liability are recognized in OPEB expense. Deferred outflows of resources and deferred inflows of resources balances are amortized over a closed period matching the expected remaining service life of all employees or a closed period of five years.

Indirect Expenses: In the statement of activities, the full-cost allocation treatment is used, whereby reported program expenses, by function, include any expenses which could be treated as indirect expenses of another function.

Interest Expense: In the statement of activities, no interest expense is reported by direct program costs. No interest expense was capitalized during the fiscal year ended June 30, 2018.

Bonds Issued, Premium/Discount on Bonds Issued and Bond Issuance Costs: In governmental fund financial statements, the face amount of bonds issued and related premium/discount are separately reported as other financing sources/uses. Bond issuance costs are reported as expenditures. In government-wide financial statements, the face amount of bonds issued is reported as a liability and related premium/discount is amortized over the life of the outstanding debt and is reported as interest expense as part of functional governmental activities expenses.

Restricted Net Position: These amounts were determined based on enabling legislation, externally restricted by creditors, grantors, contributions or laws that provide for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2018, a portion of governmental activities net position was restricted based on a federal government purpose restriction.

Governmental Funds Fund Balance Categories**Nonspendable:**

Nonspendable fund balances include amounts that cannot be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact.

Spendable Categories:**Restricted:**

Amounts which may only be spent for 1) expenditures in accordance with grants received from external parties or 2) expenditures for limited, specific purposes authorized by enabling legislation (which also authorizes the Commonwealth to assess, levy, charge or otherwise mandate payment of resources from external sources) are reported as restricted fund balance.

Unrestricted:

Committed: Commonwealth law, enacted by the General Assembly (legislature) and approved by the Governor, is the Commonwealth's highest level of decision-making authority. Both legislative enactment and gubernatorial approval on or prior to fiscal year-end are necessary to establish, modify and/or rescind amounts committed.

Assigned: Based on applicable Commonwealth laws, the Governor is responsible for accounting and financial reporting matters. Through a 1984 Executive Order, the Governor delegates this authority to the Secretary of the Budget. Through further delegation, amounts assigned are determined jointly, between the Governor's Budget Office and the Office of

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comptroller Operations. Fund balances are reported as assigned when the Commonwealth intends for resources to be used for specific purposes, but the requirements for resources to be reported as restricted or committed have not been met.

Unassigned: This is a residual category. Only the **General Fund** can report a positive unassigned fund balance. The **General Fund** can also report a negative amount in the unassigned category. For other governmental funds where amounts restricted and/or committed exceed total fund balance, such funds report negative amounts in the unassigned category.

Classification among Fund Balance Categories: Commonwealth laws, including annual enacted budgets, include legally enforceable expenditure restrictions on all funds. Commonwealth laws do not specifically recognize 'restricted' or 'unrestricted' (committed, assigned or unassigned) fund balance amounts. For financial reporting purposes, fund balance amounts for individual Commonwealth funds are reported in the first classification for which the amount 'qualifies', in this order: nonspendable, restricted, committed, assigned, and unassigned. Amounts are considered to have been spent from the fund balance classification from which specific expenditures are legally authorized. Within individual, specific Commonwealth funds, based on applicable law, individual expenditures may be disbursed from only one, specific appropriation at a time. Budgetary spending control occurs at the appropriation level. Since appropriations are not duplicated among the various GAAP-reported fund balance classifications and Commonwealth laws do not recognize the various classifications, accounting policies cannot establish that restricted amounts are spent before or after unrestricted amounts, or, within unrestricted amounts, that committed, assigned or unassigned amounts are spent in any specific order.

Budget Stabilization Reserve Fund: Act 91 of 2002 provided for this Fund, effective July 1, 2002, to gradually provide a budgetary reserve amounting to six percent of the revenues of the **General Fund**. The Fund provides financial assistance to minimize future revenue shortfalls and deficits, and promote greater continuity and predictability in the funding of vital government services. It minimizes the need to increase taxes to balance the budget of the Commonwealth during periods of economic distress. The enacted **General Fund** budget for the fiscal year ended June 30, 2010 provided that nearly the entire balance in this Fund was transferred to the **General Fund**; a \$755,000 transfer occurred on October 15, 2009. No transfer occurred for this reporting period. Act 42 of 2018 enacted that 50% of the certified budgetary surplus in the **General Fund** for the fiscal year ended June 30, 2018 be transferred in the following fiscal year.

New Accounting Pronouncements – Adopted:

The Commonwealth adopted GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. See Notes 16 and 18 for restatement information.

The Commonwealth adopted GASB Statement No. 81, "Irrevocable Split-Interest Agreements". The Statement establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts – or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements – in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government and at least one other beneficiary. See Notes 16 and 18 for restatement information.

The Commonwealth adopted GASB Statement No. 85, "Omnibus 2017". The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 86, "Certain Debt Extinguishment Issues". The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

statements for debt that is defeased in substance. The adoption of this statement had no effect on previously reported amounts.

New Accounting Pronouncements – To Be Adopted:

The GASB issued Statement No. 83, “Certain Asset Retirement Obligations” in November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

The GASB issued Statement No. 84, “Fiduciary Activities” in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

The GASB issued Statement No. 87, “Leases” in June 2017. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The GASB issued Statement No. 88, “Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements” in March 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

The GASB issued Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period” in June 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

The GASB issued Statement No. 90, “Majority Equity Interests” in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

The new standards must be adopted as follows:

GASB Statement No. 83	Effective July 1, 2018 for financial statements for fiscal year ending June 30, 2019.
GASB Statement No. 84	Effective July 1, 2019 for financial statements for fiscal year ending June 30, 2020.
GASB Statement No. 87	Effective July 1, 2020 for financial statements for fiscal year ending June 30, 2021.
GASB Statement No. 88	Effective July 1, 2018 for financial statements for fiscal year ending June 30, 2019.
GASB Statement No. 89	Effective July 1, 2020 for financial statements for fiscal year ending June 30, 2021.
GASB Statement No. 90	Effective July 1, 2019 for financial statements for fiscal year ending June 30, 2020.

The effect of these statements has not yet been determined.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**Authority for Deposits and Investments****Treasury Department**

The deposit and investment policies of the Treasury Department are governed by Sections 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929, P.L. 177, No. 175).

Treasury Department deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments. This authority is subject, however, to the exercise of that degree of judgment and care under the 'prudent person' standard prevailing at that time. The 'prudent person' standard is one of judgment and care as defined by a person of discretion and intelligence, who is familiar with such matters, in exercising such standard in the management of their own affairs. And it must not be in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital. Treasury Department deposits and investments may include equity securities and mutual funds.

The Treasury Department manages the Commonwealth Investment Program (CIP). Practically all Commonwealth funds of the primary government are invested on a temporary basis in the CIP. The Treasury Department is required to exercise judgment and care in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pools are invested in both equity securities, fixed income securities and loans to the primary government to achieve the investment objectives of the CIP funds. Asset allocation targets among cash, equity securities, fixed income securities and alternative investments are established in order to meet these overall objectives.

The Treasury Department has created Pools 999 and 998 within the CIP, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and risk tolerance. A highly liquid vehicle, Pool 999, consists of short-term fixed income securities and cash which provide a high degree of liquidity and security but only modest returns. Shares in this pool are classified as temporary investments. A less liquid vehicle, Pool 998, allows for investment in assets that offer potentially higher returns with commensurate risk. Shares in this pool are classified as long-term investments.

Other Investing Organizations

Certain investing organizations have statutory authority, which is comparable to the Treasury Department 'prudent person' authority above. The investments of such organizations are accounted for in the following funds: Workers Compensation, Workers Compensation Security Trust, **State Workers Insurance Fund (SWIF)**, **Tuition Payment**, Tuition Account Investment Program, INVEST Program for Local Governments (INVEST Program), and Underground Storage Tank Indemnification (collectively, other investing organizations). Most of the other investing organizations establish contractual arrangements with investment managers, which identify investment objectives without providing strict limitations on 'allowable' investment purchases. Most of the other investing organizations prohibit investing in certain assets, such as commodities and futures contracts, private placements (except Section 144), and limited partnerships. Several of the organizations also prohibit short selling and margin transactions. An exception includes **Tuition Payment**; this organization permits some or all of the previously mentioned prohibited assets and transactions as well as foreign investments. **SWIF** and INVEST Program amounts are reported as of December 31, 2017 unless otherwise noted.

Pension Trust Funds

The State Employees' Retirement System (SERS), the Deferred Compensation Program (DCP), the Public School Employees' Retirement System (PSERS) and the Other Post Employment Benefit Investment Pool constitute combined pension (and other employee benefit) trust funds reported in the basic financial statements. The Other Post-Employment Benefits Investment

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Pool is managed by the Treasury Department, whereas the other aforementioned trusts are managed outside the Treasury Department.

Pension trust funds avoid deposit risks as such deposits must be authorized by the Treasury Department. Several state laws govern investment authority for the SERS and the PSERS, such laws provide 'prudent person' investing authority. Allowable DCP investment options are established by the SERS under its applicable statutory authority. A material portion of total pension trust fund investments consists of equity securities, real estate and fixed income investments. The SERS and DCP are reported as of December 31, 2017.

Statutory Liquidator Fund

Investments of the Statutory Liquidator Fund, an agency fund, are primarily managed by the affected insurance companies pursuant to liquidation orders issued by the PA Insurance Commissioner. Other investments are managed by the Insurance Department's Office of Liquidations, Rehabilitations and Special Funds. Also, a portion of Statutory Liquidator Fund holdings is invested in the CIP.

Fair Value of Investments**Treasury Department**

The Treasury Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The Treasury Department has the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value Level	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt Securities				
Corporate obligations.....	\$ 1,504,789	\$ -	\$ 1,295,778	\$ 209,011
U.S. Treasury obligations.....	599,031	599,031	-	-
Mortgage backed securities.....	207,370	-	207,370	-
Private placements.....	220,249	-	220,249	-
State and municipal obligations.....	49,393	-	49,393	-
U.S. government agencies.....	22,753	-	22,753	-
Asset backed securities.....	30,754	-	30,754	-
U.S. government sponsored enterprises.....	176,328	-	176,328	-
Commercial paper.....	7,068,075	-	7,068,075	-
Sovereign debt.....	51,427	3,067	48,360	-
Equity Securities				
Equity.....	2,563,044	2,530,028	-	33,016
Preferred securities.....	3,768	1,195	2,573	-
Other Securities				
Treasury group investment (1).....	12,108,834	-	12,108,834	-
Other				
Certificates of deposits.....	2,491,465	-	2,491,465	-
Mutual funds.....	1,368,787	1,368,787	-	-
Money market mutual funds.....	2,690,090	2,640,187	49,903	-
Total investments by fair value level.....	<u>\$ 31,156,157</u>	<u>\$ 7,142,295</u>	<u>\$ 23,771,835</u>	<u>\$ 242,027</u>
Investments by Net Asset Value (NAV)				
Real estate alternative managers.....	87,293			
Fund of funds alternative managers.....	648,662			
Private equity alternative managers.....	2,095			
Absolute return alternative managers.....	982			
Total investments at NAV.....	<u>739,032</u>			
Total investments measured at fair value.....	<u>\$ 31,895,189</u>			

(1) The amount is 100% invested in the Treasury Group Consolidated Cash Pool which is made up of 20% Level 1 and 80% Level 2 inputs.

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt securities classified in Level 3 are valued by a loan pricing matrix. If vendor pricing is not available the price defaults to cost.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity securities classified in Level 2 valuations are based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets. Level 3 valuations use proprietary or single source pricing derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Other securities classified in Level 1 of the fair value hierarchy consist of mutual funds. The underlying funds are reported at fair value, determined by Vanguard based on the net asset value per share of each mutual fund as of the close of the New York Stock Exchange (NYSE) on the reporting date (level 1 inputs). Other securities classified in Level 2 of the fair value hierarchy consist of Treasury pooled investments. The underlying investments for the pools consist of 20% Level 1 securities and 80% Level 2 securities.

The Treasury Department has the following investments measured at the Net Asset Value (NAV):

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemptions Frequency</u>	<u>Redemption Notice Period</u>
Real estate alternative managers (1).....	\$ 87,293	\$ 7,578	Monthly	n/a, 30-60 days
Fund of funds alternative managers (2).....	648,662	19,484	Monthly, Quarterly	n/a, 45-90 days
Private equity alternative managers (3).....	2,095	-	n/a	n/a
Absolute return alternative managers (4).....	982	9,675	n/a	n/a, 60 days
Total investments at NAV.....	<u>\$ 739,032</u>	<u>\$ 36,737</u>		

(1) Real Estate Managers - This type of investment’s objective is to provide investors a return by investing in Real Estate Investment Trusts, mortgage loans, and other real estate development projects in certain metropolitan markets. The fair value of the investments in these managers have been determined using the NAV per share (or its equivalent) of the investments. For one investment valued at \$5,000, the invested funds cannot be withdrawn until the agreement expires.

(2) Fund of Fund Managers - This type of investment objective aims to achieve broad diversification and appropriate asset allocation with investments in a variety of fund categories that are all wrapped into one fund. This strategy invests in portfolios that contains different underlying assets through investing in other types of funds instead of investing directly in bonds, stocks and other types of securities. The fair value of the investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. The redemption notices of these investments vary from no notice specified, 45 or 90 day required notice.

(3) Private Equity Managers- This type of investment objective is to provide an above average return by investing in private companies across a variety of industries. The fair value of the investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. These investments cannot be easily redeemed as distributions are received through the liquidation of the underlying assets. For this category, the invested funds cannot be withdrawn until the agreement expires.

(4) Absolute Return Managers- This type of investment vehicle seeks to make positive returns by employing investment management techniques that differ from traditional mutual funds. The fair value of the investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. Redemption may be the first business day of each quarter or close of business on any calendar quarter, depending on the fund. For one investment valued at \$300, the invested funds cannot be withdrawn until the agreement expires.

State Employees’ Retirement System (SERS)

The SERS fair value hierarchy is broken down into three levels based on inputs that market participants would use in valuing assets and liabilities derived from market data as follows:

- Level 1 inputs: are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs: are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are observable.
- Level 3 inputs: are unobservable inputs used to measure fair value if relevant observable inputs are not available for the asset or liability at the reporting date.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Common and preferred stocks, commingled equity funds, master limited partnerships (MLPs), real estate securities, and foreign exchange contracts are valued using prices quoted in active markets for those securities and are categorized as Level 1. They are marked-to-market daily with changes in fair value recognized as part of investments and investment income. Fixed income securities are valued using a matrix pricing technique and are categorized as Level 2. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices and recently printed security-specific trading levels. Value add/opportunistic separately managed accounts (SMA) in real estate and other securities classified in Level 3 reflect prices, which may use several unobservable inputs using assumptions based on market methodologies to determine the fair value of investments.

Derivative instruments, which include foreign exchange contracts, interest rate swaps, and credit default swaps, are included in other investments in the fair value tables.

The SERS has the following fair value measurements as of December 31, 2017:

Investments by Fair Value Level	Total	Level 1	Level 2	Level 3
Fixed Income				
Agencies.....	\$ 66,718	\$ -	\$ 66,718	\$ -
Asset and mortgage backed securities.....	758,489	-	757,267	1,222
Corporates.....	896,679	-	872,672	24,007
Government.....	1,854,617	-	1,854,617	-
Sovereign debt.....	258,701	-	258,701	-
Private placements.....	448,747	-	424,304	24,443
Equity				
Domestic common and preferred stocks.....	8,947,544	8,942,091	5,154	299
Foreign common and preferred stocks.....	2,066,814	2,061,998	279	4,537
Commingled equity funds.....	5,396,139	5,396,139	-	-
Real Estate				
Real estate securities.....	235,370	235,370	-	-
Value add/opportunistic SMA.....	1,055,583	-	-	1,055,583
Other Investments.....	(599)	(657)	(8)	66
Total investments by fair value level.....	<u>\$ 21,984,802</u>	<u>\$ 16,634,941</u>	<u>\$ 4,239,704</u>	<u>\$ 1,110,157</u>
Investments by Net Asset Value (NAV)				
Buyouts private equity.....	2,494,681			
Special situations private equity.....	615,364			
Venture capital private equity.....	900,545			
Private credit funds private equity.....	12,973			
Value add/opportunistic funds real estate.....	471,505			
Core/core plus real estate.....	346,638			
Natural resources/infrastructure real estate....	95,032			
Funds-of-hedge funds.....	114,130			
Credit-focused strategies hedge funds.....	875,665			
Direct investments hedge funds.....	18,374			
Absolute return strategies hedge funds.....	9,473			
Commingled fixed income funds.....	307,545			
Total investments at NAV.....	<u>6,261,925</u>			
Total investments measured at fair value.....	<u>\$ 28,246,727</u>			

Private equity limited partnerships are valued at the NAV of the SERS ownership interest in partners’ capital, which approximates fair value. The NAV is determined by the general partners using assumptions and estimates that have been

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

reviewed and approved by valuation committees. Since private equity investments in such partnerships are generally illiquid with holding periods lasting seven to ten years, the value realized by the SERS upon disposition may differ from estimated values reflected in the basic financial statements. SERS private equity investments are categorized into the following strategies:

- Buyouts is characterized chiefly by investments in established private or publicly listed firms that are undergoing a fundamental change in operations or strategy.
- Special Situations is characterized chiefly by investments in funds that acquire distressed companies or companies in need of restructuring, funds from the secondary market, and funds providing mezzanine financing.
- Venture Capital is characterized chiefly by high-risk investments in new or young companies following a growth path (early, late, and balanced stage funds) in technology and other value-added sectors.
- Private Credit is characterized chiefly by closed-end (drawdown) limited partnership structures with liquidity events in five years or more, which may include investment strategies such as direct lending, specialty lending, mezzanine, and distressed investing.

Real estate limited partnerships are valued at the NAV of the SERS ownership percentage in partners' capital. The investment managers use third-party appraisals based on discounted cash flows, recent comparable sales, and current market conditions to arrive at NAV. For the SERS Value Add/Opportunistic Funds and Core/Core Plus, the NAV is updated by independent appraisals typically at least every three years by appraisers who meet specific professional qualifications. The appraisal process involves significant judgment and estimating; thus, the value upon sale of an asset may differ from its appraised value.

The real estate partnerships' investments are valued at the NAV. Any assumptions and estimates used in developing the NAV have been reviewed and approved by valuation committees. Because the investments in such partnerships are generally illiquid with holding periods lasting seven to ten years, the value realized by the SERS upon disposition may differ materially from estimated values reflected in the basic financial statements. The following portions of the SERS real estate investments are valued at the NAV:

- Value Add/Opportunistic Funds utilize greater leverage and development strategies relative to core strategies, thereby taking higher risks but demand higher returns. Returns are primarily generated from capital appreciation from opportunistic investments. Strategies for this category of investing can include niche opportunities that are typically not available in core-style investing. These are closed-end funds.
- Core/Core Plus are a long-term investment in high-quality real estate that generates returns primarily from stable income producing properties. These are open-end funds.
- Natural Resources/Infrastructure differ from real estate in that they focus on other real assets other than real estate, but maintain the characteristics of collateralization by hard assets and income-producing potential.

Hedge funds are valued on a monthly basis by general partners based on information provided by underlying hedge fund investments (if a fund-of-hedge fund structure), third-party administrators, and brokers. Hedge fund investments in limited partnerships are valued using the NAV of units held at the end of the period based on the fair value of underlying investments. Hedge funds includes investments designed to provide total returns comparable to the total fund return but with lower volatility and correlation to other asset classes. Hedge fund investments are designed to provide attractive long-term, risk-adjusted returns, diversification from equity markets, low beta to equity markets, and downside protection during prolonged periods of equity market decline. Most investments within this strategy are generally liquid. In general and under normal market conditions, 80% of most strategies should be able to be liquidated within one year of the withdrawal date. Hedge fund investments are categorized into the following specific strategies:

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

- Funds-of-Hedge Funds were investments in funds with investment managers who invest in hedge funds. Funds-of-Hedge Funds provided an additional layer of fiduciary oversight (investment, legal, compliance, and monitoring) with similar all-in fees as direct investments in hedge funds. The SERS was the only limited partner and was able to make larger allocations, which lowered fees and improved liquidity terms. The assets are to be sold in an orderly fashion as market conditions dictate.
- Credit-Focused Strategies are investments that include directional and relative value investments through various structures, excluding closed-end funds, that may include debt securities, credit derivatives and related instruments, and/or multi-sector fixed income funds.
- Commodities were investments in funds with investment managers who invest in commodity hedge funds. The SERS is one of several investors in the fund. Commodities were liquidated during 2017.
- Direct Investments were investments where the SERS and other institutional investors pool their funds with a manager tasked with incorporating hedge strategies. The assets are to be sold in orderly fashion as market conditions dictate.
- Absolute Return Strategies were investments intended to produce uncorrelated diversified return streams in the portfolio to help preserve and enhance the real value of the SERS Fund over long periods of time. The assets are to be sold in orderly fashion as market conditions dictate.

Commingled fixed income funds are pooled investments in multiple debt-type securities, which are valued at the NAV. Commingled fixed income funds are calculated using the closing price of the underlying investments and apportioned to the SERS based on units of ownership.

The SERS has the following investments measured at the Net Asset Value (NAV) as of December 31, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemptions Frequency</u>	<u>Redemption Notice Period</u>
Buyouts private equity.....	\$ 2,494,681	\$ 1,527,163	n/a	n/a
Special situations private equity.....	615,364	319,544	n/a	n/a
Venture capital private equity.....	900,545	176,064	n/a	n/a
Private credit funds private equity.....	12,973	237,027	n/a	n/a
Value add/opportunistic funds real estate.....	471,505	236,000	see note (1)	see note (1)
Core/core plus real estate.....	346,638	300,000	Quarterly	60 - 90 days
Natural resources/infrastructure real estate....	95,032	-	Daily	None
Funds-of-hedge funds.....	114,130	-	see note (2)	see note (2)
Credit-focused strategies hedge funds.....	875,665	-	Quarterly	95 days
Direct investments hedge funds.....	18,374	-	see note (2)	see note (2)
Absolute return strategies hedge funds.....	9,473	-	see note (2)	see note (2)
Commingled fixed income funds.....	307,545	-	Quarterly	30 days
Total investments at NAV.....	<u>\$ 6,261,925</u>	<u>\$ 2,795,798</u>		

(1) All funds have no redemption terms except for one requiring 30-days notice, which will be followed by quarterly redemptions.

(2) The assets are to be sold in an orderly fashion as market conditions dictate.

The SERS also has investments that are not measured at fair value or the NAV, which were excluded from the previous tables. The SERS owns a portion of the Pennsylvania Treasury Department’s (Treasury Department) short-term investment fund (STIF). The SERS portion of STIF is valued at cost plus accrued interest, which approximates fair value. The value of the SERS portion of the STIF was \$1,403,112 as of December 31, 2017. Additionally, the SERS has investments that are carried at either cost or liquidation basis values. These other investments totaled \$51,366 as of December 31, 2017.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Deferred Compensation Program (DCP)

DCP utilizes the fair value hierarchy, which contains three levels, and is based on the valuation inputs used to measure an asset's fair value.

- Level 1 inputs: are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs: are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are observable.
- Level 3 inputs: are unobservable inputs used to measure fair value if relevant observable inputs are not available for the asset or liability at the reporting date.

Collective investment funds and self-directed brokerage accounts are reported at fair value based on DCP's ownership percentage of underlying investments as of the last business day of the calendar year, and are categorized as Level 1. The collective investment funds comprise two U.S. equity funds, one international equity fund, and one U.S. bond fund. Using a mix of these funds, DCP offers a balanced fund and three profile funds, which are aggressive, moderate, and conservative.

Debt securities are valued using a matrix pricing technique, and categorized as Level 2. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

DCP also has investments that are not measured at fair value and are excluded from the following fair value hierarchy tables. These investments include cash, Short Term Investment Fund, the Treasury Department's short-term investment fund (STIF), and a group annuity contract totaling \$134,346 for December 31, 2017. The Short-Term Investment Fund and STIF are valued at cost plus accrued interest, which approximates fair value. The group annuity contract, which is no longer offered to participants, is valued at contract value, which approximates fair value. Contract value for the group annuity contract represents contributions made under the contract, plus earnings, less payments made to retirees and terminated participants.

DCP has the following fair value measurements as of December 31, 2017:

Investments by Fair Value Level	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Fixed income			
Asset backed securities.....	\$ 91,287	\$ -	\$ 91,287
Corporate obligations.....	169,246	-	169,246
Mortgage-backed securities.....	218,525	-	218,525
Sovereign debt obligations.....	10,127	-	10,127
U.S. Treasury obligations.....	448,749	-	448,749
U.S. private placements.....	5,622	-	5,622
U.S. government sponsored enterprises.....	59,708	-	59,708
Self directed brokerage accounts	118,123	118,123	-
Collective investment funds			
U.S. large company stock index fund.....	1,229,894	1,229,894	-
U.S. small/mid company index fund.....	421,944	421,944	-
U.S. bond index fund.....	374,316	374,316	-
International company stock index fund.....	210,204	210,204	-
Total investments by fair value level.....	<u>\$ 3,357,745</u>	<u>\$ 2,354,481</u>	<u>\$ 1,003,264</u>

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**Public School Employees' Retirement System (PSERS)**

The PSERS measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1 inputs: Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market (e.g., an equity security traded on a major exchange) provides the most reliable fair value measurement and, if available, should be used to measure fair value in that particular market.
- Level 2 inputs: Level 2 inputs are inputs that are observable, either directly or indirectly. Level 2 inputs may include quoted prices in markets that are not considered active or inputs other than quoted prices that are observable such as interest rates, yield curves, implied volatilities, credit spreads or market corroborated inputs.
- Level 3 inputs: Reporting entities may use unobservable inputs to measure fair value if relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. These unobservable inputs are considered Level 3.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

At June 30, 2018, the PSERS had the following recurring fair value measurements:

Investments by Fair Value Level	Total	Level 1	Level 2	Level 3
Short term				
PSERS Short-Term Investment Fund.....	\$ 5,584,103	\$ 5,584,103	\$ -	\$ -
Other domestic short-term.....	229,596	84,915	144,681	-
International short-term.....	24,018	16,677	7,341	-
Fixed income				
Domestic asset backed and mortgage backed securities	1,843,721	-	1,839,471	4,250
U.S. government and agency obligations.....	1,053,358	1,039,502	13,856	-
Domestic corporate and taxable municipal bonds.....	1,985,513	297,689	1,687,824	-
International fixed income.....	353,011	-	353,011	-
Common and preferred stock				
Domestic common and preferred stock.....	7,159,479	7,159,479	-	-
International common and preferred stock.....	5,673,188	5,673,157	-	31
Directly owned real estate				
	602,609	(132,000)	-	734,609
Total investments by fair value level.....	<u>\$ 24,508,596</u>	<u>\$ 19,723,522</u>	<u>\$ 4,046,184</u>	<u>\$ 738,890</u>
Investments by Net Asset Value (NAV)				
Collective trust funds.....	14,011,193			
Equity real estate.....	4,436,628			
Private equity alternative investments.....	5,950,167			
Private debt alternative investments.....	5,607,778			
Venture capital alternative investments.....	1,052,030			
Total investments at NAV.....	<u>31,057,796</u>			
Total investments measured at fair value.....	<u>\$ 55,566,392</u>			
Investment derivative instruments				
Futures.....	20,952	20,952		
Total return type swaps.....	(108,341)	(108,341)		
Foreign exchange contracts.....	68,333	68,333		
Options.....	43,904	43,904		
Total investment derivative instruments.....	<u>\$ 24,848</u>	<u>\$ 24,848</u>		

Debt, equity, and derivative instrument securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices and recently published security specific trading levels. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national securities exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national securities exchanges or securities pricing services. Securities which are not traded on a national securities exchange are valued by the respective fund manager or other third parties based on similar sales.

For alternative investments, which include private equity, special situation (private debt), venture capital and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership’s most recent available financial information.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and, for properties not appraised, the present value of the projected future net income stream is used. Real estate owned investments are reported net of related debt borrowed against the market value of the property. At June 30, 2018 and 2017, \$132,000 in open-ended repurchase agreements were netted against the related property valuation and classified as Level 1. The agreements are payable at an interest rate equivalent to 1 month LIBOR plus 40 basis points and are collateralized by certain fixed income investments of the PSERS.

Derivative instruments classified in Level 1 of the fair value hierarchy are valued using observable exchange, dealer, or broker market pricing.

The Premium Assistance investment assets have the following recurring fair value measurements as of June 30, 2018:

- PSERS Short-Term Investment Fund of \$5,565 is valued using pricing quoted in active markets for those securities (Level 1 inputs).
- Other domestic short-term investments of \$86,140 are valued using a matrix pricing model (Level 2 inputs).

The Health Options Program (HOP) investment assets have the following recurring fair value measurements as of June 30, 2018:

- PSERS Short-Term Investment Fund of \$91,094 is valued using pricing quoted in active markets for those securities (Level 1 inputs).
- Other domestic short-term investments of \$146,404 are valued using pricing quoted in active markets for those securities (Level 1 inputs).

The Defined Contribution Plan investment assets have the following fair value measurement at June 30, 2018:

PSERS Short-Term Investment Fund of \$6,735 at June 30, 2018 is valued using pricing quoted in active markets for those securities (Level 1 inputs).

The valuation method for investments measured at the NAV per share (or its equivalent) as of June 30, 2018 is presented in the following table:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemptions Frequency</u>	<u>Redemption Notice Period</u>
Collective trust funds (1).....	\$ 14,011,193	\$ -	see note (1)	0-90 days
Equity real estate (2).....	4,436,628	2,726,771		see note (2)
Private equity alternative investments (3).....	5,950,167	3,514,005		see note (3)
Private debt alternative investments (4).....	5,607,778	3,175,638		see note (4)
Venture capital alternative investments (5).....	1,052,030	538,517		see note (5)
Total investments at NAV.....	<u>\$ 31,057,796</u>	<u>\$ 9,954,931</u>		

(1) Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which regulatory agencies such as the Securities and Exchange Commission have regulatory oversight. Investments that are not subject to this oversight are subject to annual independent audits. Redemption frequency for these assets range from monthly, to quarterly, to annual.

(2) Equity real estate includes real estate funds that invest primarily in U.S., Latin American, European and Asian commercial real estate. Fund investments can be made across the capital structure of each property venture. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. These investments cannot be easily redeemed. Distributions from each fund may be received as: 1) cash

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

flows from operations or 2) return of capital from dispositions. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 12 years.

(3) Private equity includes U.S. buyout funds and international buyout funds that invest mostly in private companies across a variety of industries (although they may invest in public companies from time to time). The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. These investments cannot be easily redeemed. The nature of private equity investments is that distributions are received through the liquidation of the underlying assets of the fund. The expected holding period of a private equity portfolio company is 3 to 7 years.

(4) Special situations (Private debt) includes private investment funds that invest across the fixed income capital structure primarily in North America and Western Europe. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the PSERS's ownership interest in partners' capital. These investments cannot be easily redeemed. Instead, the nature of the investments in this type is that distributions are received through the orderly liquidation of the underlying assets of the fund throughout the stated term of the fund. It is expected that the underlying assets of the funds will be liquidated over the next 3 to 7 years.

(5) Venture capital includes U.S. based private funds, that finance young, relatively small, rapidly growing companies, typically in either the health care or information technology sectors. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the PSERS's ownership interest in partners' capital. These investments cannot be easily redeemed. The nature of venture capital investments is that distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over the next 5 to 10 years.

Statutory Liquidator Fund

The Statutory Liquidator Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The Statutory Liquidator Fund has the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value Level	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt Securities				
Corporate obligations.....	\$ 809,482	\$ 15,833	\$ 793,649	\$ -
U.S. Treasury obligations.....	302,201	283,341	18,860	-
Mortgage backed securities.....	61,648	5,554	56,094	-
Private placements.....	52,940	-	-	52,940
State and municipal obligations.....	11,984	-	11,984	-
U.S. government agencies.....	38,913	1,872	37,041	-
Asset backed securities.....	60,849	6,152	54,697	-
Commercial paper.....	109,640	-	109,640	-
Sovereign debt.....	15,210	-	15,210	-
Equity Securities				
Preferred securities.....	834	834	-	-
Other Securities				
Annuity.....	565	-	-	565
Negotiable certificates of deposit.....	4,033	4,033	-	-
Treasury group investment(1).....	89,382	-	89,382	-
Mutual Funds.....	32,857	-	-	32,857
Money market mutual funds.....	734,501	734,501	-	-
Total investments by fair value level.....	<u>\$ 2,325,039</u>	<u>\$ 1,052,120</u>	<u>\$ 1,186,557</u>	<u>\$ 86,362</u>

(1) The amount is 100% invested in the Treasury Group Consolidated Cash Pool which are made up of 20% Level 1 and 80% Level 2.

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Other securities classified in Level 1 of the fair value hierarchy consist of mutual funds valued using prices quoted in active markets. Other securities classified in Level 2 of the fair value hierarchy consist of Treasury Pooled investments. The underlying investments for the pools consist of 20% Level 1 securities and 80% Level 2 securities.

Deposit Risks

At June 30, 2018, Commonwealth bank balances of \$10,085 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$13,435 of Statutory Liquidator Fund deposits were subject to custodial deposit risk because they were uninsured and uncollateralized. The PSERS, through its third party administrator, maintains certain bank deposits for the operation of its voluntary Health Options Program. These deposits are not required to be collateralized by statute or policy. These deposits totaled \$146,404 at June 30, 2018 and are under the custody of its bank which has an A rating by Standard and Poor's (S&P) and an Aa2 rating by Moody's Investors Service (Moody's).

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**Cash with Fiscal Agent**

Within the business-type activities cash with fiscal agent, the **Unemployment Compensation Fund** reported \$2,751,052 and within the governmental activities cash with fiscal agent, the **General Fund** reported \$23,457. All of the **Unemployment Compensation Fund** and \$13,849 of the **General Fund's** cash with fiscal agent is held with the Federal Unemployment Insurance Trust Fund. The remainder of the **General Fund's** cash with fiscal agent is held for the purposes of interest repayment on certificates of participation. The Statutory Liquidator agency fund reported \$16,932 cash with fiscal agents.

Restricted Cash

Restricted cash consists of funds held for the payment of debt service interest and principal payments of the **Unemployment Compensation Fund** and debt service interest and principal payments and other purposes of the other nonmajor funds, all of which is collateralized. At June 30, 2018, the reported carrying amount of the **Unemployment Compensation Fund** and other nonmajor funds restricted cash and cash equivalents were \$463,196 and \$4,549, respectively.

Investment Risks

Risk Management Policies: The Treasury Department, which is responsible for the CIP, **Tuition Payment** and INVEST Program, has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments address custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk. Most of the other investing organizations have adopted investment policies intended to reduce the various risks. Pension trust fund policies limit custodial credit risk to a minimum but are exposed to credit risk, interest rate, and foreign currency risk. Credit risk is mitigated by following policies to purchase only 'investment grade' securities (Baa/BBB/BBB or better). Interest rate risk policies have been adopted to limit the risk by establishing maximum maturities. The establishment of policies limiting investment purchases from a single issuer mitigates concentration risk. The individual risk policies and related disclosures are discussed in greater detail below.

Investments by Type

At June 30, 2018, the Treasury Department and other investing organizations, excluding Statutory Liquidator, Tuition Account Investment Program, the SERS, DCP and the PSERS, reported a total of \$20,208,498 in investments. Cash equivalents amounting to \$268,659, which are held in the CIP and other portfolios, are reported as investments but are not included as part of fixed income investment disclosures. Excluding cash equivalents, total investments disclosed amount to \$19,939,839; of this amount, excluding equities and alternative investments (\$2,563,044 and \$739,031 respectively), fixed income investments disclosed amount to \$16,637,764.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The investment types and related amounts are as follows:

Investment Type	Amount
Alternative Investments.....	\$ 739,031
Asset backed securities.....	30,754
Certificates of deposit.....	2,491,465
Commercial paper.....	7,068,075
Corporate obligations.....	1,504,789
Equity.....	2,563,044
Money market mutual funds.....	2,690,090
Mortgage-backed securities.....	207,370
Mutual funds.....	1,368,787
Preferred securities.....	3,768
Private placements.....	220,249
Securities lending collateral pool.....	153,485
Sovereign debt obligations.....	51,427
State and municipal obligations.....	49,393
U.S. government agencies.....	22,753
U.S. government sponsored enterprises.....	176,328
U.S. Treasury obligations.....	<u>599,031</u>
Total investments	19,939,839
Cash equivalents.....	<u>268,659</u>
Total investments and cash equivalents	<u>\$ 20,208,498</u>

In addition, at June 30, 2018, all reported investments of the Tuition Account Investment Program, amounting to \$2,727,981 consist entirely of mutual funds, \$2,661,206, and money market mutual funds, \$66,775.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with either the Treasury Department, the other investing organizations or the pension trust funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. Similarly, investments of the other investing organizations and the pension trust funds are almost always registered in the name of the Commonwealth, as the Treasury Department is the statutory custodian for such investments. The **CFA** reported at June 30, 2018 \$851,704 of deposits and disclosed that due to the nature of the cash and cash equivalents balances, there is no custodial credit risk. The Tuition Account Investment Program reported at June 30, 2018 \$91,124 of bank investment contracts that are not insured by the FDIC or otherwise covered by collateral or supplementary insurance. Also, at June 30, 2018, the Statutory Liquidator Fund, an agency fund, owned investment securities subject to custodial credit risk, in the amount of \$1,309,149. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty’s trust department or agent but not in the name of the Commonwealth. The investment types and related amounts are as follows:

Investment Type	Amount
Asset backed securities.....	\$ 60,849
Certificates of deposit.....	4,033
Corporate obligations.....	687,451
Equities.....	834
Mortgage-backed securities.....	53,314
Private placements.....	146,344
Sovereign debts.....	15,210
U.S. government agencies.....	38,913
U.S. Treasury obligations.....	<u>302,201</u>
Total	<u>\$ 1,309,149</u>

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The Treasury Department places a 10% limit on the concentration of investments in any one fixed income issuer within the CIP, **Tuition Payment Fund** and INVEST Program. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. government agencies, and repurchase agreements. The Treasury Department also places a 5% limit on the concentration of investments in one equity issuer within the CIP. Similarly, to a degree, the five other investing organizations limit exposure to concentration of credit risk. Several of the other investing organizations have adopted policies, which allow greater than 5% of portfolios to consist of securities issued by the U.S. Treasury. Among Treasury and other investing organizations, based on total portfolio value of \$19,939,839, the following concentrations existed as of June 30, 2018:

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Vanguard.....	\$ 1,506,015	7.5%
Goldman Sachs.....	\$ 1,332,937	6.7%
iShares.....	\$ 1,200,374	6.0%

The concentration of credit risk for the Statutory Liquidator Fund is as follows:

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Statutory Liquidator Portfolio</u>
Federated Government Obligations Fund.....	\$ 486,783	20.4%
Dreyfus Treasury and Agency Cash Management.....	\$ 246,796	10.3%

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by Nationally Recognized Statistical Rating Agencies (NRSRA) such as Moody’s Investors Service (Moody’s), Standard & Poor’s (S&P), and Fitch Ratings (Fitch). The Treasury Department requires purchases of CIP assets to be investment grade (Baa/BBB/BBB or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to allow up to 10% of the portfolio to be in high yield investments. These investments, by definition, are not restricted to the investment grade requirements and include investments rated at Ba/BB/BB or below. Generally, the other investing organizations limit exposure to credit risk through policies, which prevents purchasing below investment grade (Baa/BBB/BBB or better).

At June 30, 2018, \$16,637,764 of total Treasury and other investing organization investments of \$20,208,498 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities \$2,563,044, alternative investments \$739,031, cash equivalents, and various deposit accounts of \$268,659. Of the Treasury amount susceptible to credit quality rating, \$15,960,474 is rated; ratings are not available for \$677,290 of fixed income investments:

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

<u>Moody's Investors Service</u>	<u>Amount</u>
P-1.....	\$ 1,092,593
Aaa.....	3,390,928
Aa.....	509,344
A.....	717,595
Baa.....	296,365
Ba.....	98,172
B.....	137,862
Caa.....	34,697
Ca.....	153
Moody's Investors Service subtotal.....	<u>6,277,709</u>
<u>Standard and Poor's</u>	
A-1.....	3,948,078
AAA.....	334,977
AA.....	989,758
A.....	1,030,278
BBB.....	120,159
BB.....	48,326
B.....	98,616
CCC.....	12,452
CC.....	850
Standard and Poor's subtotal.....	<u>6,583,494</u>
<u>Fitch Ratings</u>	
F-1.....	2,611,897
AAA.....	2,687
AA.....	16,233
A.....	424,667
BBB.....	40,143
BB.....	2,533
B.....	700
CCC.....	324
CC.....	15
C.....	63
D.....	9
Fitch Ratings subtotal.....	<u>3,099,271</u>
Rated subtotal.....	15,960,474
Unrated subtotal.....	<u>677,290</u>
Total fixed income investments.....	<u>\$ 16,637,764</u>

At June 30, 2018, 3% (\$434,772) of rated fixed income Treasury investments of \$15,960,474 are rated below investment grade. Approximately 4% (\$677,290) of the fixed income portfolio in Treasury and other investing organizations are not rated by the NRSRAs. Unrated Fixed Income Investments include securities that did not have a credit rating available from a NRSRA at June 30, 2018. Among the Tuition Account Investment Program's mutual fund portfolios, certain mutual funds hold fixed income investments susceptible to credit quality ratings and all such investments are rated Baa or higher by Moody's or BBB or higher by S&P.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The pension trust funds may expose themselves to greater credit risk than the Treasury Department or other investing organizations to meet specific investment objectives. The SERS and DCP fixed income securities (at December 31, 2017), which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service^a</u>	<u>SERS</u>	<u>DCP</u>
Aaa.....	\$ 383,795	\$ 96,303
Aa.....	527,655	361,915
A.....	342,501	134,540
Baa.....	636,802	77,469
Ba and below.....	756,291	3,550
Unrated ^b	39,450	-
Short-term investments.....	<u>1,402,365</u>	<u>133,264</u>
Total.....	<u>\$ 4,088,859</u>	<u>\$ 807,041</u>

- a. The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of Ba in this table.
- b. 'Unrated' represents securities that were either not rated or had a withdrawn rating.

The PSERS fixed income securities, which are subject to credit risk rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody's, and/or S&P that indicates the greatest degree of risk at June 30, 2018:

<u>Standard and Poor's Equivalent^a</u>	<u>Amount</u>
AAA.....	\$ 532,128
AA.....	728,428
A.....	333,381
BBB.....	1,039,962
BB and below.....	392,570
Unrated ^b	12,237,183
U.S. government guaranteed ^c	<u>1,698,960</u>
Total.....	<u>\$ 16,962,612</u>

- a. The S&P rating represents all the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.
- b. 'Unrated' securities include \$5,553,354 in collective trust funds and \$5,687,497 in PSERS Short-Term Investment Fund assets.
- c. Represents securities issued by the U.S. government and agency obligations explicitly guaranteed by the U.S. government and not considered to have credit risk.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The Statutory Liquidator Fund fixed income securities at June 30, 2018, which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 69,128
Aa.....	86,829
A.....	237,394
Baa.....	233,296
Ba.....	9,603
B.....	1,171
Caa.....	2,405
Ca.....	9,109
P-1.....	<u>113,068</u>
Moody's Investors Service subtotal.....	<u>762,003</u>
<u>Standard and Poor's</u>	
AAA.....	23,357
AA.....	363,930
A.....	109,833
A-1.....	600
BBB.....	78,325
BB.....	1,926
B.....	1,299
CCC.....	3,045
D.....	<u>510</u>
Standard and Poor's subtotal.....	<u>582,825</u>
<u>Fitch Ratings</u>	
AA.....	399
A.....	35,791
BBB.....	1,697
BB.....	174
D.....	<u>43</u>
Fitch Ratings subtotal.....	<u>38,104</u>
Rated subtotal.....	1,382,932
Unrated subtotal.....	<u>1,007,079</u>
Total fixed income investments.....	<u>\$ 2,390,011</u>

The \$2,390,011 exceeds the total of investments reported in the Statutory Liquidator statement of fiduciary assets and liabilities as it also includes certain investments included within the cash with fiscal agents and other assets classifications.

Interest Rate Risk: Interest rate risk is the risk that an investment's value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using duration. To limit Treasury's exposure to fair value losses arising from rising interest rates, Treasury's long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. Treasury measures interest rate risk using option-adjusted duration, which takes into account embedded options affecting cash flows. Other investing organizations use less sophisticated measurements to manage interest rate risk; several limit the maximum term-to-maturity of investment purchases. Further, to avoid interest rate risk, the other organizations deliberately hold a given percentage of total investments in very short-term securities to avoid the

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

potential need to sell such securities at a loss. At June 30, 2018, Treasury and other investing organizations’ fixed income portfolio, excluding Statutory Liquidator Fund and Tuition Account Investment Program, had the following option-adjusted durations (in years) by investment type:

Investment Type	Amount of Securities with Duration	Option-Adjusted Duration	Amount of Securities with no Duration	Total
Asset backed securities.....	\$ 22,426	1.445	\$ 8,328	\$ 30,754
Certificates of deposit.....	2,491,465	0.233	-	2,491,465
Commercial paper.....	6,978,181	0.201	89,894	7,068,075
Corporate obligations.....	1,238,991	4.732	265,798	1,504,789
Money market.....	2,690,090	0.083	-	2,690,090
Mortgage-backed securities.....	195,805	4.394	11,565	207,370
Mutual funds.....	-	-	1,368,787	1,368,787
Preferred securities.....	2,699	4.572	1,069	3,768
Private placements.....	218,080	3.545	2,169	220,249
Securities lending collateral pool.....	153,485	0.083	-	153,485
Sovereign debt obligations.....	51,427	1.982	-	51,427
State and municipal obligations.....	49,393	5.374	-	49,393
U.S. government agencies.....	22,634	3.298	119	22,753
U.S. government sponsored enterprises.....	174,328	1.606	2,000	176,328
U.S. Treasury obligations.....	574,031	7.201	25,000	599,031
Total.....	\$ 14,863,035		\$ 1,774,729	\$16,637,764

Neither the Statutory Liquidator Fund nor the Tuition Account Investment Program use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for the Statutory Liquidator Fund:

Investment Type	Matured	No Maturity Date	Matures in less than 1 Year	Matures in 1 to 5 Years	Matures in 6 to 10 Years	Matures in 11 to 20 Years	Matures in 21 to 30 Years	Matures in 31 to 40 Years	Matures after 40 Years	Total
Alternative investments.....	\$ -	\$ -	\$ 10,464	\$ 22,491	\$ 1,490	\$ 56	\$ 2,460	\$ -	\$ -	\$ 36,961
Annuity.....	-	565	-	-	-	-	-	-	-	565
Asset backed securities.....	-	-	555	55,975	4,120	100	99	-	-	60,849
Cash & equivalents.....	1	7,402	-	-	-	-	-	-	-	7,403
Certificates of deposit.....	-	-	3,533	500	-	-	-	-	-	4,033
Commercial paper.....	-	-	109,640	-	-	-	-	-	-	109,640
Commonwealth investment program..	-	89,382	-	-	-	-	-	-	-	89,382
Corporate obligations.....	55	-	407,774	234,908	31,822	2,941	9,398	553	-	687,451
Equities.....	-	442	-	-	-	-	-	-	392	834
Money markets.....	564	789,749	-	-	-	-	-	1,757	-	792,070
Mortgage-backed securities.....	-	-	-	102	6,803	21,635	19,727	5,047	-	53,314
Mutual funds.....	-	32,857	-	-	-	-	-	-	-	32,857
Private placements.....	-	52,940	13,070	63,914	3,589	6,076	2,739	3,081	935	146,344
Sovereign debts.....	-	-	-	6,149	6,081	2,017	481	-	482	15,210
State and municipal obligations.....	-	-	1,696	1,133	2,908	4,698	438	1,111	-	11,984
U.S. government agencies.....	-	-	19,787	18,812	314	-	-	-	-	38,913
U.S. Treasury obligations.....	-	-	255,262	41,791	2,888	-	2,260	-	-	302,201
Total.....	\$ 620	\$ 973,337	\$ 821,781	\$ 445,775	\$ 60,015	\$ 37,523	\$ 37,602	\$ 11,549	\$ 1,809	\$ 2,390,011

Within the Tuition Account Investment Program, the following mutual funds are exposed to interest rate risk:

	Amount	Average Duration	Average Effective Maturity
Vanguard Total Bond Market II Index Fund Institutional Shares.....	\$ 659,229	6.1 years	8.4 years
Vanguard Total Bond Market Index Fund Institutional Shares.....	9,949	6.1 years	8.4 years
Vanguard Short-Term Inflation-Protected Securities Index Fund Institutional Shares....	61,429	2.6 years	2.6 years
Vanguard Total International Bond Index Fund Institutional Shares.....	293,914	7.9 years	9.4 years
Vanguard Federal Money Market Fund.....	66,775	N/A	48 days

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Based on specific investment objectives, the pension trust funds may expose themselves to greater interest rate risk than Treasury or other investing organizations. Several investment choices, which may be selected by the DCP participants, including the Short-Term Investment Fund, the Stable Value Fund and the U.S. Bond Index Fund, include a variety of fixed income securities. Each pension trust fund uses option-adjusted duration (in years) as a measure of interest rate risk, as follows:

<u>SERS Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Asset and mortgage backed securities.....	\$ 757,763	3.90
Commingled investments funds.....	307,545	3.80
Corporate obligations.....	896,679	5.90
Short term investments.....	225,066	n/a
Sovereign debt obligations.....	258,701	7.50
Treasury investment pool.....	1,177,299	0.10
U.S. Treasury obligations.....	1,855,214	6.60
U.S. government sponsored enterprises.....	66,718	4.70
U.S. private placements.....	451,270	4.50
Total.....	<u>\$ 5,996,255</u>	

<u>DCP Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Asset backed securities.....	\$ 91,287	0.80
Collective investment funds.....	374,316	6.00
Corporate obligations.....	169,246	2.30
Mortgage-backed securities.....	218,525	3.60
Sovereign debt obligations.....	10,127	2.60
Treasury investment pool.....	133,264	0.10
U.S. Treasury obligations.....	448,749	3.90
U.S. government sponsored enterprises.....	59,708	1.10
U.S. private placements.....	\$ 5,622	6.30
Total.....	<u>\$ 1,510,844</u>	

<u>PSERS Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Domestic asset-backed and mortgage-backed securities....	\$ 1,843,721	2.20
U.S. government and agency obligations.....	1,053,358	8.10
Domestic corporate and taxable municipal bonds.....	1,985,513	1.30
International fixed income.....	353,011	1.00
Collective trust funds.....	5,553,354	6.60
PSERS Short-Term Investment Fund.....	5,687,497	0.10
Other Short Term assets.....	486,158	0.10
Total.....	<u>\$ 16,962,612</u>	

Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole. In total, futures contracts have adjusted the PSERS’ total portfolio duration upward by 0.1 at June 30, 2018.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Treasury Department’s policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Investment managers may trade in foreign currencies if investments will be returned to U.S. dollars. The Treasury amounts invested, by currency, are as follows:

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Foreign Currency	Equities	Preferred Securities	Total
Australian dollar.....	\$ 11,229	\$ -	\$ 11,229
British pound sterling.....	28,382	-	28,382
Canadian dollar	15,683	-	15,683
Columbian peso.....	176	18	194
Danish krone	2,869	-	2,869
Euro currency unit	49,255	912	50,167
Hong Kong dollar	19,518	-	19,518
Hungarian forint.....	94	-	94
Indonesian rupiah.....	859	-	859
Israeli shekel	397	-	397
Japanese yen	38,342	-	38,342
Malaysian ringgit	1,748	-	1,748
Mexican peso	1,933	-	1,933
New Zealand dollar	310	-	310
Philippines peso	762	-	762
Norwegian krone.....	145	-	145
Singapore dollar	3,257	-	3,257
South African rand	3,748	-	3,748
Swedish krona	4,236	-	4,236
Swiss franc	12,341	-	12,341
Thailand baht	1,036	-	1,036
Turkish lira.....	181	-	181
Total.....	\$ 196,501	\$ 930	\$ 197,431

Within the Tuition Account Investment Program, equities of \$814,169 are exposed to foreign currency risk.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Each pension trust fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2017 as follows:

Foreign Currency	Short-Term		Equities	Other		Private Equity	Total
	Investments ^a	Fixed income		Investments	Real Estate		
European euro.....	\$ 6,797	\$ 34,674	\$ 252,259	\$ (11,306)	\$ -	\$ 273,071	\$ 555,495
British pound sterling.....	1,703	47,699	177,538	10,163	-	10,406	247,509
Hong Kong dollar.....	-	-	206,105	-	-	-	206,105
South Korean won.....	1,502	-	161,969	-	-	-	163,471
Japanese yen.....	99	460	125,265	17,776	-	-	143,600
Swiss franc.....	7,814	-	93,974	(8,600)	-	-	93,188
Australian dollar.....	132	12,542	63,652	262	-	-	76,588
Swedish krona.....	-	-	6,158	17,747	-	50,248	74,153
New Taiwan dollar.....	20	-	57,277	-	-	-	57,297
Mexican peso.....	203	26,084	26,619	1,404	539	-	54,849
South African rand.....	401	12,145	37,643	(6,621)	-	-	43,568
Indonesian rupiah.....	184	8,869	29,348	-	-	-	38,401
Canadian dollar.....	286	3,541	33,833	(810)	-	-	36,850
Brazilian real.....	458	7,939	21,599	5,925	-	-	35,921
Turkish lira.....	120	2,321	25,415	5,600	-	-	33,456
Danish krone.....	1,041	-	29,016	292	-	-	30,349
Norwegian krone.....	146	-	15,731	12,782	-	-	28,659
New Zealand dollar.....	53	-	13,501	10,412	-	-	23,966
Malaysian ringgit.....	112	12,763	9,282	-	-	-	22,157
Poly zloty.....	287	13,102	1,080	2,967	-	-	17,436
Hungarian forint.....	-	-	10,833	-	-	-	10,833
Thai baht.....	18	-	10,027	-	-	-	10,045
Other currencies (7).....	881	16,049	4,030	626	-	-	21,586
Total.....	\$ 22,257	\$ 198,188	\$ 1,412,154	\$ 58,619	\$ 539	\$ 333,725	\$ 2,025,482

a. Includes receivables and payables as of December 31, 2017 for securities sold and purchased.

One of several investing choices that may be selected by the DCP participants is the International Company Stock Index Fund, which is a collective investment fund that invests in international stocks in the European, Australian, and Far East Markets and is managed by an external manager. The fund within the DCP seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim. Since the International Company Stock Index Fund is a collective investment fund, the DCP is indirectly exposed to foreign currency risk through those underlying securities.

The PSERS is exposed to foreign currency risk for equity and other securities as follows:

Foreign Currency	Equities	Fixed income	Alternative	Short-term ^a	Currency	Total
			Investments and Real Estate		Hedge	
Euro.....	\$ 1,102,053	\$ 80,144	\$ 1,590,146	\$ 6,907	\$ (1,951,095)	\$ 828,155
British pound sterling.....	885,533	8,291	209,662	1,158	(786,747)	317,897
South Korean won.....	161,072	-	-	1,143	107	162,322
Taiwan new dollar.....	147,945	-	-	438	(83)	148,300
South African rand.....	84,499	9,956	-	204	(383)	94,276
Indian rupee.....	70,039	-	-	(32)	-	70,007
Brazil real.....	54,967	2	-	849	(725)	55,093
Danish krone.....	126,043	275	-	2,537	(69,691)	59,164
Hong Kong dollar.....	251,845	-	-	338	(198,563)	53,620
Other currencies.....	2,398,858	135,132	7,358	20,525	(2,459,545)	102,328
Total.....	\$ 5,282,854	\$ 233,800	\$ 1,807,166	\$ 34,067	\$ (5,466,725)	\$ 1,891,162

a. Includes investment receivables and payables.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Securities Lending Program

The Treasury Department provides a securities lending program in which the various investments under custody of the Treasury Department participate. A contract between the Treasury department and its custodian, acting as a lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers in exchange for collateral.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. Securities lent consist of both domestic and foreign equity and fixed income securities. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of collateral received must be at least 105% of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102%. Practically all collateral received consists of cash. A small portion of collateral received consists of letters of credit, U.S. Treasury, corporate and/or foreign debt obligations. Collateral is marked-to-market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligation to borrowers are reported.

To the extent collateral received consists of cash, the lending agent invests the cash in accordance with reinvestment guidelines approved by the Treasury Department. At June 30, 2018, 100% of the collateral was invested in overnight U.S. Government repurchase agreements. Either the lender or the borrower may terminate the loan on demand. Loans are typically of very short duration, usually overnight. The duration of lending agreements do not match the maturities of the investments made with the cash collateral. The resulting rate risk is mitigated by the lending agent’s ability to reallocate loans among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent’s negligence or intentional misconduct. During the fiscal year ended June 30, 2018, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2018, the total fair value of the securities lent, along with the type of investments lent, were as follows:

Fund/Organization	Total Securities Lent	U.S. Treasury Obligations	U.S. Government			Sovereign Debt Obligations	Exchange Traded
			Sponsored Enterprises	Corporate Obligations	Equities		
Deferred Compensation Program.....	\$ 21,093	\$ -	\$ 20,936	\$ 157	\$ -	\$ -	\$ -
State Employees' Retirement System.....	619,842	207,785	2,804	34,552	374,194	370	137
Public School Employees' Retirement System.....	96	-	-	-	96	-	-
Underground Storage Tank Indemnification Fund....	26,446	1,297	-	3,301	-	-	21,848
Workers' Compensation Security Trust Fund.....	31,122	877	-	11,656	-	-	18,589
State Workers' Insurance Fund.....	88,861	67,521	67	9,784	11,295	-	194
Other Postemployment Benefits Investment Pool..	26,615	-	-	-	-	-	26,615
Commonwealth Investment Program.....	23,708	-	-	12,465	7,930	-	3,313
Tuition Payment Fund.....	14,924	-	-	32	2,360	-	12,532

Public School Employees’ Retirement System (PSERS)

The PSERS participates in a securities lending program with a third party agent. Under this program, the lending agent loans securities (equities, fixed income, and money market instruments) to independent brokers and dealers in exchange for U.S. dollar cash collateral in an amount not less than 102% of the fair value of any securities loaned. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained. The lending agent invests the cash collateral in accordance with reinvestment guidelines approved by the PSERS.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

As of June 30, 2018, the PSERS had no credit risk exposure to borrowers because the amounts the PSERS owed the borrowers exceeded the amounts the borrowers owed the PSERS. Under the securities lending program, the lending agent provides indemnification to the PSERS if a borrower fails to return borrowed securities (and the collateral is inadequate to replace the loaned securities) or fails to pay income distributions on them. The lending agent also provides indemnification to the PSERS if investment of cash collateral results in investment loss. There were no losses during the fiscal year ended June 30, 2018 resulting from a default of the borrowers or the lending agent. All securities loans can be terminated on demand by either the PSERS or the borrower, although the average term of the loan is one day. There were no term loans as of June 30, 2018.

Cash collateral is invested in a short-term collateral investment pool that is managed by the lending agent, is segregated from all other clients of the lending agent, and is not subject to custodial credit risk. The PSERS's income from securities lending represents its pro-rata share from participating in the program. The weighted-average maturity of the investments in the pool was one day at June 30, 2018. During the fiscal year ended June 30, 2018, the mismatch between the maturities of the investments made with cash collateral and the maturities of the securities loans may have posed some interest rate risk to the PSERS. In the event of a default, the lending agent may use the collateral to replace the loaned securities. As of June 30, 2018, the fair value of loaned securities was \$2,917,358. The fair value of the associated collateral was \$2,980,119, all of which was cash.

Derivative and Other Similar Investments**State Employees' Retirement System (SERS)**

Within narrowly prescribed guidelines, the SERS permits investment advisors to enter into certain derivative and structured financial instruments primarily to hedge risk and reduce the volatility of its portfolio. Typically, investment managers enter into foreign exchange contracts to make payment for international investments and to hedge currency risk, futures contracts to manage interest rate risk, and swaps to more efficiently gain investment exposure in the equity and credit markets.

The SERS is exposed to counterparty credit risk on all open derivative positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of December 31, 2017, the SERS' counterparty credit risk was not significant. The SERS mitigates its legal risk on investment holdings including derivatives by ensuring that all of its legal requirements (indemnification, sovereign immunity, jurisdiction, etc.) are acknowledged and agreed to in all of the derivatives agreements that it is subject to.

The SERS managers also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through its investments in commingled funds and hedge funds. These funds invest in instruments directly and indirectly to gain foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The investment manager uses these contracts primarily for its international investments to settle pending trades that occur more than two business days after trade date. The contracts are used by the investment manager for the purpose of eliminating foreign exchange risk. As a matter of policy, the investment managers enter into these contracts at their full discretion to protect currency fluctuations. To reduce the risk of counterparty nonperformance, the investment managers generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the SERS net position and represents the fair value of the contracts on December 31. At December 31, 2017, the SERS had contracts to purchase and sell, by major foreign currency, as follows:

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Foreign Currency	Purchase Contracts	Unrealized Gain/(Loss)	Sell Contracts	Unrealized Gain/(Loss)
Japanese yen.....	\$ 17,776	\$ (87)	\$ -	\$ -
Swedish krona.....	17,747	161	-	-
Norwegian krone.....	15,358	(215)	2,576	134
British pound sterling.....	13,071	135	2,908	(20)
New Zealand dollar.....	10,412	270	-	-
European Euro.....	7,493	54	18,799	(307)
Canadian dollar.....	6,156	167	6,967	(177)
Brazilian real.....	5,925	(97)	-	-
Turkish lira.....	5,600	(204)	-	-
Danish krone.....	3,520	28	3,227	(26)
Polish zloty.....	2,967	98	-	-
Mexican peso.....	1,404	(59)	-	-
Russian ruble.....	1,252	30	627	(13)
Australian dollar.....	262	2	-	-
Swiss franc.....	-	-	8,600	176
South African rand.....	-	-	6,621	(708)
Total.....	\$ 108,943	\$ 283	\$ 50,325	\$ (941)

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, and credit worthiness. The SERS uses contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS managers use credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability or vice versa. The SERS managers use interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market. The SERS' exposure to swap agreements was not significant at December 31, 2017.

Deferred Compensation Program (DCP)

The DCP, through the Mellon Capital Management (MCM) managed accounts, indirectly holds certain derivative financial instruments. The derivatives most commonly used by MCM include currency forwards, futures, options, and swaps. MCM may take long or short positions in derivative instruments for various purposes. The DCP exposure to these instruments was not significant as of December 31, 2017.

The collective investment funds that the DCP is invested in currently utilize stock index futures and currency forwards. These instruments are used in the investment management of the collective funds to the extent that their use is consistent with the specific collective fund's objective. Derivatives are viewed within the context of the collective fund's total portfolio. MCM has instituted policies and procedures designed to ensure that derivative transactions are in keeping with the overall strategy and that such transactions are properly reviewed and monitored.

MCM may take long or short positions in derivative instruments for, but not limited to, the following purposes: to create or hedge required exposure; to create or hedge model-driven recommended exposure; as an adjustment to asset exposures within the parameters set in the collective fund's investment instructions and guidelines; to achieve transactional efficiency; to adjust the duration of a fixed income portfolio; if applicable, to achieve the appropriate degree of leverage, as stated in the collective fund's investment instructions and guidelines; and to facilitate meeting the collective fund's objectives.

Public School Employees' Retirement System (PSERS)

The PSERS enters into a variety of financial contracts, which include options and futures. The PSERS also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury strips. The PSERS is not a dealer, but an end user of these instruments. The contracts are

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

used primarily to enhance performance and/or reduce the volatility of the portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The PSERS generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of PSERS’ involvement in the various types and uses of derivative financial instruments and do not measure the PSERS’ exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the PSERS’ derivative financial instruments at June 30, 2018:

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts - long.....	\$ 4,638,782
Futures contracts - short.....	72,838
Foreign exchange forward and spot contracts, gross.....	5,685,011
Options - puts purchased.....	2,132,285
Swaps - total return type.....	7,608,586

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the PSERS enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the PSERS has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2018 represent a restriction on the amount of assets available as of fiscal year-end for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The PSERS generally uses exchange listed currency, index, stock, and futures options. During FYE June 30, 2018, the PSERS purchased over-the-counter put options on the S&P 500 Index. The fair value of these option contracts was \$43,904 at June 30, 2018.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. To reduce the risk of counterparty non-performance, the investment managers generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported primarily include forwards. The \$5,685,011 of foreign currency contracts outstanding at June 30, 2018 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$109,143 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$5,575,868. The unrealized gain on contracts of \$68,333 at June 30, 2018, is included in the statement of fiduciary net position and represents the fair value of the contracts.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes, or interest rates. During the year ended June 30, 2018, the PSERS entered into total return type swaps. Under the total return type swap arrangements, the PSERS receives the net return of certain equity securities or indexes in exchange for a short-term rate minus a spread or a predetermined fixed charge. The payable on the total return type swap contracts of \$(108,341) at June 30, 2018, is included in the statement of fiduciary net position and represents the fair value of the contracts. The contracts have varying maturity dates ranging from July 2, 2018 to June 4, 2019.

NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2018 is \$548,512.

The PSERS invests in U.S. Treasury strips which essentially act as zero coupon bonds and are subject to market volatility from a rise or drop in interest rates.

Through certain collective trust funds, the PSERS also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs, to enhance the performance and/or reduce the volatility of their portfolios.

NOTE 3 - RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES

Taxes Receivable: Taxes receivable, by tax type, reported on the statement of net position at June 30, 2018 consisted of the following:

Statement of Net Position			
Governmental Activities			
	Current	Noncurrent	Total
Sales and use.....	\$ 872,524	\$ 127,223	\$ 999,747
Personal income....	707,569	555,054	1,262,623
Corporation.....	469,465	147,867	617,332
Liquid fuels.....	315,714	-	315,714
Inheritance.....	397,400	125,719	523,119
Cigarette.....	59,454	-	59,454
Other.....	44,967	-	44,967
Total.....	<u>\$ 2,867,093</u>	<u>\$ 955,863</u>	<u>\$ 3,822,956</u>

Taxes receivable reported on the governmental funds balance sheet and the statement of fiduciary net position at June 30, 2018 consisted of the following:

Balance Sheet-Governmental Funds					Statement of Fiduciary Net Position		
General Fund					Motor License Fund	Nonmajor Governmental Funds	Fiduciary Funds
Expected to be Collected:					Collected by	Collected by	Collected by
From September 1, 2018					August 31, 2018	August 31, 2018	August 31, 2018
	By August 31, 2018	through June 30, 2019	After June 30, 2019	Total	-	-	-
Sales and use.....	\$ 675,042	\$ 197,482	\$ 127,223	\$ 999,747	\$ -	\$ -	\$ 48,895
Personal income....	399,371	308,198	555,054	1,262,623	-	-	-
Corporation.....	63,119	406,346	147,867	617,332	-	-	-
Liquid fuels.....	-	-	-	-	315,714	-	-
Inheritance.....	170,973	226,427	125,719	523,119	-	-	-
Cigarette.....	59,454	-	-	59,454	-	-	13,944
Other.....	7,529	-	-	7,529	-	37,438	2,592
Total.....	<u>\$ 1,375,488</u>	<u>\$ 1,138,453</u>	<u>\$ 955,863</u>	<u>\$ 3,469,804</u>	<u>\$ 315,714</u>	<u>\$ 37,438</u>	<u>\$ 65,431</u>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$2,094,316 expected to be collected after August 31, 2018 is reported as deferred inflows of resources. The total amount of taxes receivable reported on the governmental funds balance sheet, \$2,867,093 (\$2,513,941 reported in the **General Fund**, \$315,714 reported in the **Motor License Fund**, and \$37,438 reported in nonmajor governmental funds), expected to be collected from July 1, 2018 through June 30, 2019 is also reported as current taxes receivable in governmental activities on the statement of net position. The remaining **General Fund** taxes receivable of \$955,863 reported on the governmental funds balance sheet expected to be collected after June 30, 2019 is reported as noncurrent taxes receivable in governmental activities on the statement of net position. All of the revenue associated with the taxes receivable reported in governmental activities on the statement of net position is reported as tax revenue in governmental activities on the statement of activities.

Loans Receivable: Loans receivable at June 30, 2018 consisted of the following:

	Governmental Activities	Business Type Activities	
	General Fund	Commonwealth Financing Authority	Nonmajor Enterprise Funds
Economic development loans.....	\$ 52,790	\$ 315,808	\$ 86,563
Volunteer fire, ambulance and rescue company loans.....	-	-	70,063
Environmental program loans.....	1,952	-	-
School district loans.....	17,965	-	-
Other notes and loans.....	110	-	-
	<u>72,817</u>	<u>315,808</u>	<u>156,626</u>
Less: allowance for uncollectible amounts.....	(3,697)	(28,039)	(8,094)
Loans receivable, net.....	<u>\$ 69,120</u>	<u>\$ 287,769</u>	<u>\$ 148,532</u>

NOTE 3 – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)

The **General Fund** reported \$57,635 in loans due after June 30, 2019, the **Commonwealth Financing Authority** (a blended component unit) reported \$270,070 in loans due after June 30, 2019, and nonmajor enterprise funds reported \$122,921 in loans due after June 30, 2019.

Uncollectible Receivables: On the statement of revenues, expenses and changes in net position-proprietary funds, the **State Workers’ Insurance Fund** reports sales and services net of \$10,797 in uncollectible amounts.

Governmental Funds Unearned Revenue: The **General Fund**, the **Motor License Fund**, and several nonmajor special revenue and debt service funds reported unearned revenue. The following chart provides the portion of total receipts which have not yet been earned as revenue as of June 30, 2018:

	General Fund	Motor License Fund	Nonmajor Funds	Total Governmental Funds
Unearned revenue.....	\$ 17,664	\$ 6,943	\$ 105,144	\$ 129,751

Deferred Outflows of Resources and Deferred Inflows of Resources: On the statement of net position, governmental activities and business-type activities reported both deferred outflows of resources and deferred inflows of resources at June 30, 2018. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2018:

	Total Governmental Activities	Total Business-type Activities
Deferred Outflows of Resources		
Refundings of debt.....	\$ -	\$ 2,111
Pension related:		
Contributions subsequent to measurement date.....	835,395	35,003
Differences between expected and actual experience.....	233,516	10,647
Net difference between projected and actual earnings on plan investments.....	6,735	-
Changes of assumptions.....	690,384	31,526
Changes in proportion.....	234,803	11,386
Differences between employer contributions and proportionate share.....	30,128	1,442
Other postemployment benefits related:		
Contributions subsequent to measurement date.....	673,744	35,341
Net difference between projected and actual earnings on plan investments.....	13	-
Total deferred outflows of resources.....	\$ 2,704,718	\$ 127,456
Deferred Inflows of Resources		
Refundings of debt.....	\$ 281,047	\$ -
Pension related:		
Differences between expected and actual experience.....	260,591	11,957
Net difference between projected and actual earnings on plan investments.....	541,990	25,035
Changes of Assumptions.....	-	-
Changes in proportion.....	268,113	15,644
Differences between employer contributions and proportionate share.....	21,117	1,031
Other postemployment benefits related:		
Net difference between projected and actual earnings on plan investments.....	20,266	919
Changes of Assumptions.....	2,305,288	101,362
Changes in proportion.....	6	-
Total deferred inflows of resources.....	\$ 3,698,418	\$ 155,948

NOTE 3 – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)

On the balance sheet for governmental funds, the **General Fund**, the **Motor License Fund** and several nonmajor special revenue funds reported unavailable revenue as deferred inflows of resources. The following chart provides, per receivable, the amounts expected to be collected after August 31, 2018 which are reported as deferred inflows of resources:

	General Fund	Nonmajor Funds	Total Governmental Funds
Expected to be collected after August 31, 2018:			
Taxes receivable.....	\$ 2,094,316	\$ -	\$ 2,094,316
Accounts receivable.....	428,677	176,299	604,976
Due from federal government.....	328,361	-	328,361
Total deferred inflows of resources.....	\$ 2,851,354	\$ 176,299	\$ 3,027,653

On the statement of net position-proprietary funds, the **State Workers' Insurance Fund**, the **State Lottery Fund**, the **State Stores Fund**, the **Commonwealth Financing Authority**, (a blended component unit), each respectively a major fund, various nonmajor proprietary funds and the internal service funds reported deferred outflows of resources and deferred inflows of resources at June 30, 2018. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2018:

	Unemployment Compensation Fund	State Workers' Insurance Fund	State Lottery Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total Proprietary Funds	Internal Service Funds
Deferred Outflows of Resources								
Refundings of debt.....	\$ -	\$ -	\$ -	\$ -	\$ 1,540	\$ 571	\$ 2,111	\$ -
Pension related:								
Contributions subsequent to measurement date.....	742	-	3,371	28,489	-	2,401	35,003	3,082
Differences between expected and actual experience.....	211	669	960	8,121	-	686	10,647	878
Changes of assumptions.....	626	1,980	2,842	24,047	-	2,031	31,526	2,597
Changes in proportion.....	209	663	951	8,048	-	1,515	11,386	869
Differences between employer contributions and proportionate share.....	28	87	125	1,062	-	140	1,442	114
Other postemployment benefits related:								
Contributions subsequent to measurement date.....	1,564	2,056	2,983	26,853	-	1,885	35,341	2,188
Total deferred outflows of resources.....	\$ 3,380	\$ 5,455	\$ 11,232	\$ 96,620	\$ 1,540	\$ 9,229	\$ 127,456	\$ 9,728
Deferred Inflows of Resources								
Pension related:								
Differences between expected and actual experience.....	\$ 237	\$ 751	\$ 1,078	\$ 9,120	\$ -	\$ 771	\$ 11,957	\$ 985
Net difference between projected and actual earnings on plan investments.....	497	1,572	2,257	19,097	-	1,612	25,035	2,063
Changes in proportion.....	246	777	1,116	9,443	-	4,062	15,644	1,020
Differences between employer contributions and proportionate share.....	19	61	87	740	-	124	1,031	80
Other postemployment benefits related:								
Net difference between projected and actual earnings on plan investments.....	4	59	84	727	-	45	919	61
Changes of assumptions.....	392	6,442	9,153	79,357	-	6,018	101,362	6,705
Total deferred inflows of resources.....	\$ 1,395	\$ 9,662	\$ 13,775	\$ 118,484	\$ -	\$ 12,632	\$ 155,948	\$ 10,914

NOTE 3 – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)

On the statement of fiduciary net position, the pension (and other employee benefit) trust funds reported deferred outflows of resources and deferred inflows of resources at June 30, 2018. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2018:

<u>Deferred Outflows of Resources</u>	<u>Pension (and Other Employee Benefit) Trust Funds</u>
Pension related:	
Contributions subsequent to measurement date.....	\$ 3,721
Differences between expected and actual experience.....	1,019
Changes of assumptions.....	3,017
Changes in proportion.....	4,639
Differences between employer contributions and proportionate share.....	49
Other postemployment benefits related:	
Contributions subsequent to measurement date.....	1,900
Total deferred outflows of resources.....	\$ 14,345
<u>Deferred Inflows of Resources</u>	
Pension related:	
Differences between expected and actual experience.....	\$ 1,144
Net difference between projected and actual earnings on plan investments	2,396
Changes in proportion.....	646
Differences between employer contributions and proportionate share.....	71
Other postemployment benefits related:	
Net difference between projected and actual earnings on plan investments	64
Changes of assumptions.....	6,951
Total deferred inflows of resources.....	\$ 11,272

NOTE 4 – CAPITAL ASSETS

Changes in governmental activities capital assets for the fiscal year ended June 30, 2018 are as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
Non-Depreciable Capital Assets:				
Land.....	\$ 605,910	\$ 2,610	\$ 100	\$ 608,420
Highway right-of-way.....	2,399,728	67,512	-	2,467,240
General construction in progress.....	980,023	447,722	517,742	910,003
Transportation construction in progress.....	3,890,013	3,117,639	2,847,792	4,159,860
Subtotal.....	<u>7,875,674</u>	<u>3,635,483</u>	<u>3,365,634</u>	<u>8,145,523</u>
Depreciable and Amortizable Capital Assets:				
Land improvements.....	1,024,706	31,030	1,567	1,054,169
Buildings and building improvements.....	7,747,542	290,601	20,323	8,017,820
Machinery and equipment.....	1,578,572	128,695	15,455	1,691,812
Highway infrastructure.....	30,343,763	1,611,778	-	31,955,541
Bridge infrastructure.....	14,955,131	927,244	4,316	15,878,059
Waterway infrastructure.....	31,755	1,976	-	33,731
Other infrastructure.....	218,202	1,661	-	219,863
Software.....	656,022	179,113	1,959	833,176
Other intangibles.....	200	-	-	200
Subtotal.....	<u>56,555,893</u>	<u>3,172,098</u>	<u>43,620</u>	<u>59,684,371</u>
Less accumulated depreciation and amortization for:				
Land Improvements.....	421,489	29,851	1,127	450,213
Buildings and building improvements.....	3,343,272	172,716	13,977	3,502,011
Machinery and equipment.....	1,009,055	120,974	13,720	1,116,309
Highway infrastructure.....	17,513,740	1,260,897	-	18,774,637
Bridge infrastructure.....	4,306,492	413,247	1,958	4,717,781
Waterway infrastructure.....	5,039	666	-	5,705
Other infrastructure.....	77,084	11,102	-	88,186
Software.....	289,391	44,945	1,219	333,117
Other intangibles.....	200	-	-	200
Subtotal.....	<u>26,965,762</u>	<u>2,054,398</u>	<u>32,001</u>	<u>28,988,159</u>
Total depreciable and amortizable capital assets, net.....	<u>29,590,131</u>	<u>1,117,700</u>	<u>11,619</u>	<u>30,696,212</u>
Total governmental activities capital assets, net.....	<u>\$ 37,465,805</u>	<u>\$ 4,753,183</u>	<u>\$ 3,377,253</u>	<u>\$ 38,841,735</u>

The decreases in construction in progress represent increases to all Capital Asset classes including Non-Depreciable assets such as Land and Highway right-of way. For the fiscal year ending June 30, 2018, the amount of the decreases to construction in progress that resulted in increases to Land and Highway right-of-way totaled \$69,804.

NOTE 4 – CAPITAL ASSETS (continued)

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2018 is as follows:

	Governmental Activities Capital Assets	
Direction and supportive services.....	\$	61,660
Protection of persons and property.....		133,848
Public education.....		40,446
Health and human services.....		27,648
Economic development.....		48
Transportation.....		1,765,107
Recreation and cultural enrichment.....		25,641
Total depreciation and amortization expense.....	\$	<u>2,054,398</u>

Changes in business-type activities capital assets for the fiscal year ended June 30, 2018 are as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Non-Depreciable Capital Assets:				
Land.....	\$ 209,130	\$ 11,716	\$ -	\$ 220,846
General construction in progress.....	14,124	63,266	22,300	55,090
Subtotal.....	<u>223,254</u>	<u>74,982</u>	<u>22,300</u>	<u>275,936</u>
Depreciable and Amortizable Capital Assets:				
Land Improvements.....	69,830	11,875	-	81,705
Buildings and building improvements.....	432,859	9,166	828	441,197
Machinery and equipment.....	187,074	5,025	818	191,281
Software.....	23,121	1,241	4,117	20,245
Other intangibles.....	-	-	-	-
Subtotal.....	<u>712,884</u>	<u>27,307</u>	<u>5,763</u>	<u>734,428</u>
Less accumulated depreciation and amortization for:				
Land Improvements.....	15,482	3,768	-	19,250
Buildings and building improvements.....	207,089	17,211	540	223,760
Machinery and equipment.....	136,679	11,159	801	147,037
Software.....	9,607	4,377	4,117	9,867
Other intangibles.....	-	-	-	-
Subtotal.....	<u>368,857</u>	<u>36,515</u>	<u>5,458</u>	<u>399,914</u>
Total depreciable and amortizable capital assets, net.....	<u>344,027</u>	<u>(9,208)</u>	<u>305</u>	<u>334,514</u>
Total business-type activities capital assets, net.....	<u>\$ 567,281</u>	<u>\$ 65,774</u>	<u>\$ 22,605</u>	<u>\$ 610,450</u>

NOTE 4 – CAPITAL ASSETS (continued)

Construction in progress included in governmental activities capital assets at June 30, 2018 includes project information as follows:

	Project Authorization	Amounts Expended at June 30, 2018	Authorization Available
General Construction in Progress:			
Capitol Complex.....	\$ 463,115	\$ 96,961	\$ 366,154
Department of Corrections Institutions.....	434,050	393,654	40,396
Educational Institutions.....	558,806	178,421	380,385
Environmental Protection.....	17,209	9,555	7,654
State Parks and Forests.....	164,795	34,370	130,425
Veterans Homes and Military Armories.....	62,994	27,047	35,947
Department of Human Services Institutions.....	95,697	81,370	14,327
Transportation Facilities.....	108,569	43,932	64,637
Historical and Museum Commission Facilities.....	11,728	6,681	5,047
State Police Facilities.....	17,237	7,849	9,388
Agriculture Facilities.....	21,135	1,076	20,059
Department of Labor and Industry.....	751	659	92
Other.....	721,928	28,428	693,500
Total general construction in progress.....	<u>2,678,014</u>	<u>910,003</u>	<u>1,768,011</u>
Highway and Bridge Construction in Progress:.....	<u>6,242,252</u>	<u>4,159,860</u>	<u>2,082,392</u>
Total construction in progress.....	<u>\$ 8,920,266</u>	<u>\$ 5,069,863</u>	<u>\$ 3,850,403</u>

The Commonwealth’s initial valuation of governmental activities capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, governmental activities capital asset acquisitions are reported at cost or, for donations or confiscations, at fair value. At June 30, 2018 the remaining amount of governmental activities capital assets related to the initial June 30, 1986 valuation amounted to \$1,496,800. The initial June 30, 1986 valuation did not include highway, bridge or waterway infrastructure. Such infrastructure was first reported in the June 30, 2002 basic financial statements, retroactive to July 1, 1980.

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Position

Internal Balances

In the statement of net position, reported internal balances of (\$32,514)/\$32,809 for governmental activities/business-type activities differ by \$295 because the **State Workers’ Insurance Fund**, an enterprise fund, reports for its fiscal year ended December 31, 2017.

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2018 is as follows, with major fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$208,239 and \$15,138; aggregate nonmajor enterprise funds receivables from other funds amount to \$2,143; aggregate internal service funds receivables from other funds and from component units, respectively, amount to \$47,194 and \$17:

FUND TYPE/FUND <u>PRIMARY GOVERNMENT</u>	DUE FROM		DUE TO	
	OTHER	COMPONENT	OTHER	COMPONENT
	FUNDS	UNITS	FUNDS	UNITS
General Fund	\$ 97,501	\$ 166,008	\$ 275,869	\$ 247
<u>Special Revenue:</u>				
Motor License Fund	5,231	30	67,939	20,975
Tobacco Settlement Fund.....	-	-	19,677	-
Public Transportation Trust Fund.....	160,834	-	20	-
Gaming Fund.....	18	14,797	22,045	15,000
Environmental Stewardship Fund.....	86	-	3,105	-
Emergency Medical Services Operating Fund.....	1,106	-	-	-
Agricultural Conservation Easement Purchase Fund.....	16,088	-	-	-
Marcellus Shale Fund.....	-	-	24,922	-
Multimodal Transportation Fund.....	-	-	36,195	-
Other Funds.....	11,580	-	5,717	4
Special Revenue subtotal.....	194,943	14,827	179,620	35,979
<u>Debt Service:</u>				
Water & Sewer Assistance Bond Sinking Fund.....	-	9	-	-
PA Infrastructure Investment Authority Redemption Fund.....	-	332	-	-
Debt Service subtotal.....	-	341	-	-
<u>Capital Projects:</u>				
Capital Facilities Fund.....	639	-	2,513	-
Keystone Recreation, Park and Conservation Fund.....	8,279	-	195	-
Growing Greener Bond Fund.....	-	-	26	-
Public Transportation Assistance Fund.....	9,609	-	997	-
Capital Projects subtotal.....	18,527	-	3,731	-
<u>Enterprise:</u>				
Unemployment Compensation Fund	1,765	-	100	-
State Lottery Fund	12,935	-	96,363	-
State Stores Fund	854	-	22,249	-
Commonwealth Financing Authority	69,122	-	695	-
Rehabilitation Center Fund.....	-	-	129	-
Philadelphia Regional Port Authority.....	2,127	-	26	-
Other Funds.....	16	-	159	23
Enterprise subtotal.....	86,819	-	119,721	23
<u>Internal Service:</u>				
Purchasing Fund.....	38,153	14	4,389	3
Manufacturing Fund.....	9,041	3	517	-
Internal Service subtotal.....	47,194	17	4,906	3

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
	<u>Fiduciary - Pension Trust:</u>			
State Employees' Retirement System.....	14,554	97,786	-	-
Deferred Compensation Fund.....	-	-	225	-
Public School Employees' Retirement System.....	7,594	-	1,748	-
Fiduciary - Pension Trust subtotal.....	22,148	97,786	1,973	-
Total primary government.....	\$ 467,132	\$ 278,979	\$ 585,820	\$ 36,252

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
	<u>Pennsylvania Turnpike Commission.....</u>			
	\$ 16,957	\$ -	\$ -	\$ -
<u>Pennsylvania Housing Finance Agency.....</u>				
	-	295	-	122
<u>Pennsylvania Higher Education Assistance Agency.....</u>				
	3	-	-	-
<u>Pennsylvania Infrastructure Investment Authority.....</u>				
	15,015	122	166,319	296
<u>State System of Higher Education.....</u>				
	259	-	84	-
<u>Pennsylvania Industrial Development Authority.....</u>				
	-	-	4	-
<u>Pennsylvania Convention Center Authority.....</u>				
	-	-	14,797	-
<u>Other component units.....</u>				
	-	-	11	-
Total component units.....	\$ 32,234	\$ 417	\$ 181,215	\$ 418

The amount of total reported interfund receivables of \$778,762 does not agree with total reported interfund payables of \$803,705 at June 30, 2018 due to different fiscal year ends and reporting differences for certain funds included in the fund financial statements at June 30, 2018. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2018; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, pension trust funds, and the **State Workers' Insurance Fund**, an enterprise fund, are reported at their fiscal years ended December 31, 2017. The following presents a reconciliation of interfund balances reported at June 30, 2018 and those amounts that would have been reported if all funds reported at the same fiscal year-end:

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due from other funds.....	\$ 287,710	\$ 129,771	\$ 18,403	\$ -	\$ 435,884
Due from pension trust funds.....	23,262	4,242	3,745	-	31,249
Due from component units.....	181,175	17	97,786	417	279,395
Due from primary government.....	-	-	-	32,234	32,234
Total.....	\$ 492,147	\$ 134,030	\$ 119,934	\$ 32,651	\$ 778,762
Reported Interfund Receivables.....					\$ 778,762
State Employees' Retirement System decrease in receivables from January 1, 2018 through June 30, 2018.....					(81,347)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2018 through June 30, 2018.....					4,018
State Workers' Insurance Fund increase in receivables from January 1, 2018 through June 30, 2018.....					310
Interfund receivables reported as taxes receivable and accounts receivable by fiduciary funds.....					80,019
Payroll accrual at June 30, 2018 - receivables attributable to State Employees' Retirement System.....					49,929
Reconciled Interfund Receivables.....					\$ 831,691

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 295,783	\$ 121,883	\$ 513	\$ -	\$ 418,179
Due to pension trust funds.....	163,437	2,744	1,460	-	167,641
Due to component units.....	36,226	26	-	418	36,670
Due to primary government.....	-	-	-	181,215	181,215
Total.....	<u>\$ 495,446</u>	<u>\$ 124,653</u>	<u>\$ 1,973</u>	<u>\$ 181,633</u>	<u>\$ 803,705</u>
Reported Interfund Payables.....					\$ 803,705
State Employees' Retirement System increase in payables from January 1, 2018 through June 30, 2018.....					1,098
Deferred Compensation Fund decrease in payables from January 1, 2018 through June 30, 2018.....					(28)
Pennsylvania Turnpike Commission increase in payables from June 1, 2018 through June 30, 2018.....					90
State Workers' Insurance Fund increase in payables from January 1, 2018 through June 30, 2018.....					121
Interfund payables reported as accounts payable by fiduciary funds.....					<u>26,705</u>
Reconciled Interfund Payables.....					\$ 831,691

Advances – Fund Financial Statements

At June 30, 2018, the **General Fund** reported Advances to Other Funds of \$7,475. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund (SWIF)**, an enterprise fund; \$2,175 to the **Motor License Fund** and \$3,000 to the Medical Marijuana Program Fund, special revenue funds. These amounts have been reported by the respective owing funds as advances from other funds, except for the **SWIF**, which reported an advance of \$2,410 at its fiscal year ended December 31, 2017. At June 30, 2018, the Workers' Compensation Security Fund and the Workers' Compensation Administration Fund, special revenue funds, reported Advances to Other Funds of \$165,750 and \$16,500, respectively; these amounts were advanced to the **General Fund** and the Uninsured Employers Guaranty Fund, a special revenue fund. The advance to the **General Fund**, in the amount of \$165,750, is expected to be repaid by July 2019. The advance to the Medical Marijuana Program Fund, in the amount of \$3,000, is expected to be repaid during the fiscal year ending June 30, 2019. The Underground Storage Tank Indemnification Fund, an agency fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2018; a \$7,000 repayment is expected to occur during the fiscal year ending June 30, 2019.

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2018 is as follows, with major fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,541,445 during the fiscal year ended June 30, 2018; aggregate nonmajor governmental fund transfers to other funds amounted to \$827,888. Aggregate nonmajor proprietary fund transfers from other funds amounted to \$91,628, while aggregate nonmajor proprietary fund transfers to other funds amounted to \$9,500.

The **Commonwealth Financing Authority (CFA)**, a blended component unit enterprise fund, transferred revenue bond proceeds in the amount of \$403,894 to the **General Fund**. As prescribed by Act 25 of 2016, the bond proceeds transferred from the **CFA** shall be used by the **General Fund** to reimburse school districts for construction costs. Additionally, **CFA** transferred proceeds from the Tobacco Master Settlement Payment Revenue Bonds, Series 2018 in the amount of \$1,500,000 to the **General Fund** to provide budgetary relief.

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	TRANSFERS	
	IN	OUT
PRIMARY GOVERNMENT		
General Fund.....	\$ 2,459,826	\$ 1,253,402
<u>Special Revenue:</u>		
Motor License Fund.....	20,797	106,067
Workers' Compensation Administration Fund.....	2,751	-
Banking Fund.....	-	21,000
Public Transportation Trust Fund.....	117,946	30,000
Gaming Fund.....	-	324,933
Environmental Stewardship Fund.....	27,652	42,243
Vocational Rehabilitation Fund.....	44,889	-
Agricultural Conservation Easement Purchase Fund.....	14,290	-
State Farm Products Show Fund.....	5,000	-
Recycling Fund.....	1,000	15,000
Oil and Gas Lease Fund.....	-	84,787
Hazardous Sites Cleanup Fund.....	18,826	5,000
Marcellus Shale Fund.....	35,000	100,354
Insurance Regulation and Oversight Fund.....	-	11,752
State Racing Fund.....	10,856	-
Fish and Boat Fund.....	680	25
Multimodal Transportation Fund.....	30,000	53,959
Other Funds.....	740	824
Special Revenue subtotal.....	<u>330,427</u>	<u>795,944</u>
<u>Debt Service:</u>		
Capital Debt Fund.....	1,171,556	-
Growing Greener Bond Sinking Fund.....	20,480	-
Water and Sewer Assistance Bond Sinking Fund.....	22,259	-
Water Supply and Wastewater Treatment Sinking Fund.....	7,884	-
Debt Service subtotal.....	<u>1,222,179</u>	<u>-</u>
<u>Capital Projects:</u>		
Capital Facilities Fund.....	9,558	105,366
Keystone Recreation, Park and Conservation Fund.....	78	10,152
Growing Greener Bond Fund.....	-	254
Water Supply and Wastewater Treatment Fund.....	-	199
Public Transportation Assistance Fund.....	-	22,040
Capital Projects subtotal.....	<u>9,636</u>	<u>138,011</u>
<u>Enterprise:</u>		
Unemployment Compensation Fund.....	-	3,000
State Lottery Fund.....	145,700	250,907
State Stores Fund.....	-	187,600
Commonwealth Financing Authority.....	293,106	1,914,138
Pennsylvania Infrastructure Bank Fund.....	-	7,500
Philadelphia Regional Port Authority.....	91,628	-
Rehabilitation Center Fund.....	-	2,000
Enterprise subtotal.....	<u>530,434</u>	<u>2,365,145</u>
Total transfers, fund financial statements.....	4,552,502	4,552,502
Less: net elimination of governmental fund transfers.....	(2,717,791)	(2,717,791)
Total transfers, Statement of Activities.....	<u>\$ 1,834,711</u>	<u>\$ 1,834,711</u>

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

Primary Government Transactions with Discretely Presented Component Units

Financial Support Provided to:

Major Discretely Presented Component Units

During the fiscal year ended June 30, 2018 (May 31, 2018 for Pennsylvania Turnpike Commission), the Commonwealth provided financial support to major discretely presented component units, reported by the component units as follows:

State System of Higher Education (appropriations, grants and contracts)	\$ 572,583
Pennsylvania Higher Education Assistance Agency (grants).....	333,560
Pennsylvania Turnpike Commission (capital contributions).....	169,962
Pennsylvania Housing Finance Agency (program income and fees).....	23,385
Pennsylvania Infrastructure Investment Authority (operating revenues; capital contributions).....	27,577

Nonmajor Discretely Presented Component Units

During the fiscal year ended June 30, 2018, the Commonwealth provided financial support to nonmajor component units by appropriations, as follows:

Ben Franklin Technology Development Authority.....	\$ 14,500
Thaddeus Stevens College of Technology.....	14,273
Port of Pittsburgh Commission	500

Financial Support Provided to the Commonwealth

During its fiscal year ended May 31, 2018, the Pennsylvania Turnpike Commission incurred additional debt in order to provide \$450,000 to the Public Transportation Trust Fund under the statutory provisions of Act 89 of 2013, Act 44 of 2007, and the related Lease and Funding Agreement between the Pennsylvania Turnpike Commission and the Commonwealth. Under the provisions of Act 89 of 2013, the Commonwealth subsequently transferred \$30,000 from the Public Transportation Trust Fund to the Multimodal Transportation Fund.

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES

Governmental Activities

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2018 and changes therein during the fiscal year ended June 30, 2018 are as follows:

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities.....	2007-18	3.00-5.85%	2039	\$ 134,084,410	\$ 7,458,780	\$ 1,205,000	\$ 1,209,348	\$ 7,454,432
Disaster Relief.....	-	-	-	105,908	-	-	-	-
Land and Water Development.....	-	-	-	300	-	-	-	-
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	-	-	-	50,000	-	-	-	-
Vietnam Conflict Veterans Compensation.....								
Water Facilities Loan.....	-	-	-	3,000	-	-	-	-
Pennsylvania Economic Revitalization.....	-	-	-	11,500	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	2010-18	3.00-5.85%	2038	35,600	436,460	16,000	123,390	329,070
Local Criminal Justice.....				3,000	-	-	-	-
Water Supply and Wastewater Treatment.....								
Growing Greener.....	2007-16	3.00-5.85%	2036		60,370	-	15,745	44,625
Persian Gulf Conflict Veterans Compensation.....	2007-18	3.00-5.85%	2039		-	26,000	38,732	176,129
Refunding Bonds.....	2004-17	3.00-5.38%	2031		-	3,871,185	970,030	337,070
								4,504,145
Total principal.....				134,351,718	12,015,656	2,217,030	1,724,285	12,508,401
Unamortized premium on bonds issued.....					957,387	237,162	280,156	914,393
Unamortized discount on bonds issued.....					(6,552)	(1,430)	(821)	(7,161)
Total general obligation bonds payable.....				\$ 134,351,718	12,966,491	2,452,762	2,003,620	\$ 13,415,633
Other General Long-Term Obligations Payable From Tax and Other Revenues:								
Installment Purchase Obligations (1).....					1,798	2,184	933	3,049
Capital Lease Obligations (1).....					98,255	749	2,793	96,211
Self-Insurance--Note 8 (1)(2).....					1,063,229	105,978	131,760	1,037,447
Compensated Absences (1).....					735,657	514,764	505,139	745,282
Other (1).....					1,117,094	351,816	413,348	1,055,562
Subtotal.....					3,016,033	975,491	1,053,973	2,937,551
TOTAL GENERAL LONG-TERM OBLIGATIONS.....					\$ 15,982,524	\$ 3,428,253	\$ 3,057,593	\$ 16,353,184

Totals may not foot due to rounding.

(1) The reported current liability portion of: Installment Purchase Obligations is \$883; Capital Lease Obligations is \$3,034; Self-Insurance is \$143,013; Compensated Absences is \$146,128; and Other liabilities is \$289,581.

(2) The beginning balance for the Self-Insurance liability was adjusted due to the implementation of GASB 75; see Note 8 for additional information regarding the impact of GASB 75 on Self-Insurance liabilities.

Total principal “Additions” above, amounting to \$2,217,030, are equal to bonds issued of \$1,247,000 and refunding bonds issued of \$970,030 reported in the governmental funds statement of revenues, expenditures, and changes in fund balances for the fiscal year ended June 30, 2018.

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

The total “Additions” of \$2,452,762 for general obligation bonds payable at June 30, 2018 consists of total bond and refunding bond proceeds of \$1,312,896 and, \$1,139,866 respectively, for governmental funds (including a premium of \$237,162 less a discount of \$1,430).

The total “Reductions” of \$2,003,620 for general obligation bonds payable at June 30, 2018 consists of total principal repayments of \$1,724,285 plus \$280,156 of bond premium and \$821 bond discount that were amortized and posted to bond interest expense in the statement of activities (unamortized premium in the statement of net position at June 30, 2018 is \$914,393, unamortized discount is \$7,161).

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. The **General Fund**, the **Motor License Fund** and the Gaming Fund transferred amounts to debt service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2018, these three funds transferred \$1,052,329, \$91,225 and \$28,000 respectively, to the Capital Debt Fund. The Capital Debt Fund reported \$1,200,022 (95 percent) of total Debt Service funds principal and interest expenditures of \$1,260,659. Typically, except for catastrophic loss benefits claims, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are mostly funded by the **General Fund** and/or the **Motor License Fund**. In specific limited instances a variety of individual funds will fund some obligations. Such instances include capital assets being procured using long-term vendor or other financing.

Included in “Other” for Other General Long-Term Obligations payable from workers’ compensation insurance carrier assessments, **General Fund**, **Motor License Fund**, and/or other governmental fund tax revenues, investment income and/or escheated property are the following at June 30, 2018:

Workers' compensation security trust claims.....	\$ 397,320
Catastrophic loss benefits claims.....	66,929
Public Utility Realty Tax Act (PURTA) liability.....	28,273
Litigation liability - Note 14.....	31,156
State Insurance Fund claims.....	7,199
Restricted receipts liability.....	1,750
Escheated property liability.....	384,221
Pollution remediation liability.....	138,714
Total.....	<u><u>\$ 1,055,562</u></u>

The Workers’ Compensation Security Trust Fund provides for payment of valid claims under the Workers’ Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Continuation Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The Public Utility Realty Tax Act (PURTA) provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a **General Fund** revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. Escheated property is held in perpetuity for the rightful owner. The liability represents the estimated property that will ultimately be claimed. This property may be claimed without the appropriation process. None of the “Other” amounts included in general long-term obligations at June 30, 2018 are payable with currently expendable available financial resources.

Pollution remediation obligations generally involve groundwater, surface water and/or soil at or adjacent to former manufacturing/industrial locations. Affected landfills have either received specific contaminants and/or are the source of leachate, either on-site or affecting adjacent properties. Contaminants include petroleum, chlorinated and/or polycyclic aromatic hydrocarbons; also, priority pollutant and/or target analyte list metals or lead. Financial responsibility is often coordinated between the Commonwealth, the Federal Environmental Protection Agency and, from time to time, either private responsible or potentially responsible parties. Reported obligation amounts do not include instances, or portions of instances,

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

where specific components of a potential remediation effort are not reasonably estimable as of June 30, 2018. The nature of the remediation activities in such instances is often site assessment, investigation or feasibility studies. Remediation efforts are typically funded through the Hazardous Sites Cleanup Fund or the **Motor License Fund**, both special revenue funds.

The Commonwealth’s constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$68,808,014 as of August 31, 2018, with net debt outstanding after credit for refunded debt of \$10,999,114.

The following tables present annual principal and interest payments for long-term debt outstanding at June 30, 2018:

	2019	2020	2021	2022	2023	2024-28
GENERAL OBLIGATION BONDS:						
Capital Facilities.....	\$ 729,308	\$ 709,895	\$ 670,088	\$ 709,639	\$ 642,253	\$ 3,041,557
Disaster Relief.....	-	-	-	-	-	-
Land and Water Development.....	-	-	-	-	-	-
Nursing Home Loan Development.....	-	-	-	-	-	-
Volunteer Companies Loan.....	-	-	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-
Water Facilities Loan.....	-	-	-	-	-	-
Pennsylvania Economic Revitalization.....	-	-	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	29,579	33,255	30,026	40,479	31,632	148,902
Agricultural Conservation Easement Purchase.....	-	-	-	-	-	-
Local Criminal Justice.....	-	-	-	-	-	-
Keystone Recreation, Park and Conservation.....	-	-	-	-	-	-
Water Supply and Wastewater Treatment.....	5,101	4,419	4,409	4,416	4,397	17,154
Growing Greener.....	21,710	21,336	16,034	16,048	14,854	69,217
Persian Gulf Conflict Veterans Compensation.....	-	-	-	-	-	-
Refunding Bonds.....	585,260	613,808	625,272	540,599	554,478	2,282,408
Total Principal and Interest.....	1,370,958	1,382,713	1,345,829	1,311,181	1,247,614	5,559,238
Less: Interest Payments.....	(563,913)	(535,333)	(495,084)	(453,716)	(411,134)	(1,440,848)
Total General Obligation Bonds.....	807,045	847,380	850,745	857,465	836,480	4,118,390
Other General Long-Term Obligations.....	578,725	204,059	173,423	169,019	165,221	622,336
TOTAL GENERAL LONG-TERM OBLIGATIONS.....	\$ 1,385,770	\$ 1,051,439	\$ 1,024,168	\$ 1,026,484	\$ 1,001,701	\$ 4,740,726

Totals may not foot due to rounding.

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

	<u>2029-33</u>	<u>2034-38</u>	<u>2039-43</u>	<u>Total</u>
GENERAL OBLIGATION BONDS:				
Capital Facilities.....	\$ 3,085,305	\$ 1,271,874	\$ 96,783	\$ 10,956,702
Disaster Relief.....	-	-	-	-
Land and Water Development.....	-	-	-	-
Nursing Home Loan Development.....	-	-	-	-
Volunteer Companies Loan.....	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-
Water Facilities Loan.....	-	-	-	-
Pennsylvania Economic Revitalization.....	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	136,541	6,440	-	456,854
Agricultural Conservation Easement Purchase.....	-	-	-	-
Local Criminal Justice.....	-	-	-	-
Keystone Recreation, Park and Conservation.....	-	-	-	-
Water Supply and Wastewater Treatment.....	16,953	5,106	-	61,955
Growing Greener.....	66,060	18,222	2,091	245,572
Persian Gulf Conflict Veterans Compensation.....	-	-	-	-
Refunding Bonds.....	<u>177,455</u>	<u>-</u>	<u>-</u>	<u>5,379,280</u>
Total Principal and Interest.....	3,482,314	1,301,642	98,874	17,100,363
Less: Interest Payments.....	<u>(573,033)</u>	<u>(115,327)</u>	<u>(3,574)</u>	<u>(4,591,962)</u>
Total General Obligation Bonds.....	2,909,281	1,186,315	95,300	12,508,401
Other General Long-Term Obligations.....	<u>409,796</u>	<u>270,147</u>	<u>344,827</u>	<u>2,937,553</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS.....	<u>\$ 3,319,077</u>	<u>\$ 1,456,462</u>	<u>\$ 440,127</u>	<u>\$ 15,445,954</u>

Totals may not foot due to rounding.

The Commonwealth routinely leases various facilities and equipment on an ongoing basis. Some of these lease agreements constitute in-substance purchases (capital leases) whereby the assets being leased are reported as capital assets and the related liabilities are reported as capital lease obligations. In addition, the Commonwealth routinely acquires certain capital assets using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments due for capital leases and installment purchases, together with the present value of the net minimum lease payments as of June 30, 2018:

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

	Capital Lease Obligations	Installment Purchase Obligations
Fiscal Year Ending June 30		
2019.....	\$ 7,586	\$ 975
2020.....	7,976	846
2021.....	8,084	669
2022.....	8,188	484
2023.....	8,136	273
2024-28.....	41,756	-
2029-33.....	44,290	-
2034-38.....	<u>18,123</u>	<u>-</u>
Total minimum lease payments.....	144,139	3,247
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>-</u>	<u>-</u>
Net minimum lease payments and installment purchases.....	144,139	3,247
Less: amount representing interest.....	<u>(47,928)</u>	<u>(198)</u>
Total Capital Lease and Installment Purchase Obligations.....	<u>\$ 96,211</u>	<u>\$ 3,049</u>

At June 30, 2018, general capital assets included \$197,000 of buildings and \$2,233 of equipment procured by capital leases. A total of \$25,629 in general capital assets have been procured using vendor-financed installment purchase arrangements.

Refunded Debt Information

During the fiscal year ended June 30, 2018 the Commonwealth issued \$970,030 in general obligation bonds, First Refunding Series of 2017 with an average interest cost of 2.37% to advance refund \$999,565 of previously issued general obligation bonds with average interest rates of 4.7%. The net refunding bond proceeds of \$1,136,887 (including bond premium of \$169,837), after payment of underwriting fees and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth’s financial statements. The Commonwealth refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$73,364 and to obtain an economic gain of \$63,720.

A deferred inflow of resources of \$137,966 for net refunding gain was reported in the statement of net position. Bond issuance costs of \$2,479 were reported in the statement of revenues, expenditures and changes in fund balance, as interest and fiscal charges.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2018, \$1,636,355 of general obligation bonds outstanding that were previously accounted for in the Commonwealth’s financial statements were defeased through advance refunding.

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

Business Type Activities

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$1,644,235 of the **Tuition Payment Fund**, an enterprise fund, at June 30, 2018 is based on several actuarial assumptions, including those related to tuition cost increases, investment experience, income from account maintenance fees, and program expenses for the Pennsylvania 529 Guaranteed Savings Plan (GSP). The assumed rate of return on long-term investments is 6.00%.

Changes in tuition benefits payable are as follows:

Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Current	Non Current
				Due within One Year	Due after One Year
\$ 1,640,769	\$ 226,293	\$ 222,827	\$ 1,644,235	\$ 246,238	\$ 1,397,997

Insurance Loss Liability

The reported insurance loss liability of the **State Workers’ Insurance Fund (SWIF)**, an enterprise fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 2.00% at December 31, 2017 and December 31, 2016. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2017 and 2016, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability.

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2017	\$1,562,897	\$183,256	(\$41,676)	\$34,832	\$172,175	\$1,497,470
2016	\$1,604,104	174,305	14,797	34,338	195,971	\$1,562,897

The current portion of the total **SWIF** insurance loss liability is \$168,820 and the noncurrent portion is \$1,328,650. Additionally, nonmajor enterprise funds reported a noncurrent insurance loss liability of \$496 at June 30, 2018. Total reported current insurance loss liability amounts to \$168,820 and total noncurrent insurance loss liability amounts to \$1,329,146 at June 30, 2018.

Compensated Absences Liability

The reported compensated absences liability for the enterprise funds totaled \$36,358 at June 30, 2018. Of that amount, the liability is primarily owed by the **State Stores Fund** (\$29,248), the **SWIF** (\$1,697), and the **State Lottery Fund** (\$2,657). The following summary provides aggregated information reported for June 30, 2018 compensated absences liabilities; additions and reductions during the fiscal year ended June 30, 2018 and reported compensated absences liabilities at June 30, 2018:

Liability at June 30, 2017	Additions	Reductions	Liability at June 30, 2018
\$ 35,874	\$ 25,335	\$ 24,851	\$ 36,358

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

The current portion of the total compensated absences liability for enterprise funds is \$6,889; the noncurrent portion is \$29,469.

Revenue Bonds Payable

Revenue bond obligations of the enterprise funds (including the Philadelphia Regional Port Authority and the **Commonwealth Financing Authority**, blended component units) at June 30, 2018 and changes during the fiscal year ended June 30, 2018 are as follows:

<u>REVENUE BONDS PAYABLE</u>	Issue	Interest	Maturity	Balance			Balance
	Dates	Rates	Through	July 1, 2017	Additions	Reductions	June 30, 2018
Philadelphia Regional Port Authority.....	2008	3.00-5.00%	2021	\$ 16,705	\$ -	\$ 3,870	\$ 12,835
Unemployment Compensation Fund.....	2012	1.00-5.00%	2024	1,470,100	-	456,810	1,013,290
Commonwealth Financing Authority.....	2005-13	0.55-6.40%	2042	2,260,225	1,899,690	72,205	4,087,710
Total principal obligations.....				3,747,030	1,899,690	532,885	5,113,835
Less: unamortized bond discount.....				(4,452)	-	(234)	(4,218)
Add: unamortized bond premium.....				150,816	115,259	55,867	210,208
TOTAL REVENUE BONDS PAYABLE.....				\$ 3,893,394	\$ 2,014,949	\$ 588,518	\$ 5,319,825

The following table presents annual principal and interest payments for long-term debt outstanding for revenue bonds for the enterprise funds:

	2019	2020	2021	2022	2023	2024-28	2029-33
Philadelphia Regional Port Authority.....	\$ 4,605	\$ 4,607	\$ 4,607	\$ -	\$ -	\$ -	\$ -
Unemployment Compensation Fund.....	435,253	310,146	311,210	37,495	-	-	-
Commonwealth Financing Authority....	268,176	313,151	311,978	311,755	311,512	1,496,288	1,640,026
Total Principal and Interest.....	708,034	627,904	627,795	349,250	311,512	1,496,288	1,640,026
Less: Interest Payments.....	(235,344)	(214,764)	(194,260)	(176,640)	(168,697)	(730,623)	(522,006)
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 472,690	\$ 413,140	\$ 433,535	\$ 172,610	\$ 142,815	\$ 765,665	\$ 1,118,020

	2034-38	2039-43	Total
Philadelphia Regional Port Authority.....	\$ -	\$ -	\$ 13,819
Unemployment Compensation Fund.....	-	-	1,094,104
Commonwealth Financing Authority....	1,626,065	212,957	6,491,908
Total Principal and Interest.....	1,626,065	212,957	7,599,831
Less: Interest Payments.....	(230,095)	(13,567)	(2,485,996)
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 1,395,970	\$ 199,390	\$ 5,113,835

NOTE 7 - SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS**Short-Term Debt**

On August 14, 2017, the Commonwealth initiated a Short-Term Investment Agreement (Investment Agreement) between the Treasury Department's Short-Term Investments Pool (STIP) and the Office of the Budget for \$750,000. The Investment Agreement is structured as a revolving line of credit, which imposes a market-based rate of return, for the exclusive purpose of providing revenue for the general purposes of the Commonwealth and such other expenses payable from the **General Fund**. The Investment Agreement will provide the benefit, consistent with the public interest, of an alternate means of financing short-term revenue shortfalls and avoids unnecessary costs and fees otherwise associated with traditional short-term bond financing. On August 23, 2017, the principal of \$750,000 was repaid. Additionally, per the Investment Agreement the interest calculated of \$142 was repaid along with the principal. The Investment Agreement expired on August 23, 2017.

On August 24, 2017, the Department of Transportation entered into a Memorandum of Understanding (MOU) with the Office of the Budget establishing a line of credit (LOC) for \$241,000 between the **Motor License Fund (MLF)** and the **General Fund**. The LOC is a revolving line of credit that permits the **General Fund** to borrow monies only to be used to pay expenditures of state monies from the **General Fund** during fiscal year 2017-18. None of the borrowed monies may be used for federal expenditures. The LOC establishes an interest rate based on the monthly rate of return earned by the Department of Treasury's Short-Term Investment Pool (Pool 999) and will be calculated on a daily basis by multiplying the principal amount of the LOC outstanding by the Pool 999 Average Weighted Yield month-to-date rate applicable to each day of the period from the date of the first draw through the date of repayment. Pursuant to the terms of the MOU the **General Fund** received \$241,000 from the **MLF** on August 24, 2017. On February 28, 2018 the principal of \$241,000 was repaid. Per the MOU the calculated interest of \$1,554 was repaid on March 15, 2018. The MOU expired when the final payment was made, March 15, 2018.

On October 13, 2017, the Commonwealth initiated an Investment Agreement between the Treasury Department's STIP and the Office of the Budget for \$700,000. The Investment Agreement is structured as a revolving line of credit, which imposes a market-based rate of return, for the exclusive purpose of providing revenue for the general purposes of the Commonwealth and such other expenses payable from the **General Fund**. The Investment Agreement will provide the benefit, consistent with the public interest, of an alternate means of financing short-term revenue shortfalls and avoids unnecessary costs and fees otherwise associated with traditional short-term bond financing. On October 18, 2017, the principal of \$700,000 was repaid. Additionally, per the Investment Agreement the interest calculated of \$99 was repaid along with the principal. The Investment Agreement expired on October 20, 2017.

On October 26, 2017, the Commonwealth initiated an Investment Agreement between the Treasury Department's STIP and the Office of the Budget for \$1,800,000. The Investment Agreement is structured as a revolving line of credit, which imposes a market-based rate of return, for the exclusive purpose of providing revenue for the general purposes of the Commonwealth and such other expenses payable from the **General Fund**. Advances to the **General Fund** related to the Investment Agreement occurred on October 27, 2017 for \$100,000 and on November 1 for \$200,000. On November 6, 2017, the principal of \$300,000 was repaid. Additionally, per the Investment Agreement the interest calculated of \$51 was repaid along with the principal. On November 15, 2017 the Treasury advanced \$1,200,000 to the **General Fund** related to the October 26th Investment Agreement. The Office of the Budget authorized the transfer of \$600,000 in funds on November 20, 2017 to retire \$600,000 of the outstanding advance on the November 15th STIP investment. In addition to the \$600,000 principal repayment, \$76 of interest was also paid. On December 15, 2017 the Treasury advanced \$600,000 to the **General Fund** related to the October 26, 2017 Investment Agreement. The Office of the Budget authorized the transfer of \$600,000 in funds on December 21, 2017 retire the \$600,000 advance. In addition, interest of \$111 was also paid. The remaining \$600,000 of the October 26th advance was repaid on February 21, 2018. Additionally, per the Investment Agreement the interest calculated of \$1,933 was repaid along with the principal. The Investment Agreement expired on April 2, 2018.

NOTE 7 – SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
STIP	\$ -	\$ 3,550,000	\$ 3,550,000	\$ -
MOU	\$ -	\$ 241,000	\$ 241,000	\$ -

Other Financing Obligations

Pursuant to applicable Commonwealth laws, the Underground Storage Tank Indemnification Fund (USTIF), an agency fund, advanced \$67,500 to the **General Fund**. There were no borrowings from, or repayments to, the USTIF during the fiscal year ended June 30, 2018, as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
Principal	\$ 67,500	\$ -	\$ -	\$ 67,500

Based on several contractual agreements between the Commonwealth, the City of Philadelphia (City), and the Pennsylvania Convention Center Authority (PCCA), a discretely presented component unit, the Commonwealth is financially obligated for debt service principal and interest payments for certain bonds issued by a public financing authority in connection with the PCCA premises in Philadelphia, Pennsylvania. Total debt service requirements for the bonds at June 30, 2018 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total Other Financing Obligations</u>
2019.....	\$ 13,956
2020.....	18,726
2021.....	19,483
2022.....	19,396
2023.....	19,313
2024-28.....	70,243
2029-33.....	118,378
2034-38.....	129,609
2039-40.....	25,227
Total principal and interest.....	434,331
Less: interest	(216,091)
Total Principal.....	\$ 218,240

Total bond interest payments made during the fiscal year ended June 30, 2018 amounted to \$13,956 and were financed by \$9,072 from the City (in the form of an annual service fee), and \$4,884 from the U.S. Treasury (in the form of a Build America Bonds interest subsidy for Series B of the bonds).

Through June 30, 2039, the Commonwealth anticipates that the City will remit \$15,000 each fiscal year to the bond trustee, to be applied first to bond principal and interest payments due during each fiscal year amounting to a total of \$300,000; a total of \$80,516 of Build America Bonds Series B interest subsidy that will be paid to the bond trustee; the bond trustee will

NOTE 7 – SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)

apply Debt Service Reserve fund income of \$20,871; and the Commonwealth will appropriate a maximum amount of \$32,944 to be financed by the Gaming Fund under the provisions of Act 53 of 2007 to finance total bond principal and interest payments of \$434,331 at June 30, 2018. Amounts to be financed by the Gaming Fund under the provisions of Act 53 of 2007 are established each fiscal year and will vary based on bond trustee investment income and other amounts due under the bond trust indenture and other contractual agreements. No Gaming Fund payment was required for the fiscal year ended June 30, 2018.

On January 30, 2018, the Commonwealth entered into a long-term financing agreement. The term of the agreement is for 29 years with a one time, lump-sum net payment of \$200,000 paid to the Commonwealth. This agreement was securitized with an issuance of certificates of participation on April 26, 2018. The Commonwealth will make semi-annual payments on the last day of June and the last day of December in accordance with the amortization schedule. Interest will accrue on the principal amount payable by the Commonwealth per the established rates. The interest due through June 30, 2019 was capitalized with the escrow agent. No additional principal or interest will be due for the 2018-2019 fiscal year. The first payment will be due in December 2019.

The semi-annual payments are to be made solely from funds appropriated by the General Assembly. The certificates of participation are not secured by a pledge by the Commonwealth of the Commonwealth’s full faith, credit and taxing power. The other financing obligation at June 30, 2018 consists of \$201,115 in principal and \$15,535 in unamortized premium. The tables for the balances and changes in the obligation as of June 30, 2018 and the annual principal and interest payments are as follows:

CERTIFICATES OF PARTICIPATION	Issue Date	Interest Rates	Maturity Dates Through	Beginning Balance July 1, 2017	Additions	Reductions	Beginning Balance July 1, 2018
Certificates of Participation Payable From Appropriation:							
Series A of 2018.....	4/26/2018	3.63-5.85	7/1/2046	-	201,115	-	201,115
Total principal.....				-	201,115	-	201,115
Unamortized premium on certificates issued.....				-	15,535	-	15,535
Total certificates of participation payable.....				-	216,650	-	216,650

Other Financing Obligations:	2019	2020	2021	2022	2023	2024-28	2029-33	2034-38	2039-43	2044-46	Total
Certificates of Participation (Principal and Interest)	9,508	13,253	13,256	13,254	13,253	66,271	66,277	66,280	66,285	39,766	367,403
Less: Interest payments	(9,508)	(9,508)	(9,321)	(9,124)	(8,918)	(41,111)	(34,252)	(26,305)	(15,260)	(2,981)	(166,288)
Total Certificates of Participation	0	3,745	3,935	4,130	4,335	25,160	32,025	39,975	51,025	36,785	201,115

NOTE 8 – SELF-INSURANCE LIABILITIES

The Commonwealth is self-insured for statutory workers’ compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee, and general torts. For property losses, the Commonwealth has a \$1,000 retention with excess commercial insurance coverage up to \$1,000,000 per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks. Accrued liabilities for statutory workers’ compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2018. No accrued liability has been reported for property losses under self-insurance.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2018. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

At June 30, 2018, none of the \$1,037,447 of accrued self-insurance liabilities for governmental activities were payable from current expendable available financial resources. The governmental activities liabilities are primarily owed by the **General Fund** (\$811,302) and the **Motor License Fund** (\$186,879). Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$2,383), the **State Workers’ Insurance Fund** (\$1,516), and the **State Stores Fund** (\$59,304), all enterprise funds. All accrued self-insurance liabilities at June 30, 2018 are summarized as follows:

	Governmental Activities		Business-Type Activities	
	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>
Employee disability.....	\$ 124,514	\$ 781,758	\$ 9,057	\$ 56,872
Automobile tort.....	3,250	8,403	-	-
Employee tort.....	5,750	43,533	-	-
General tort.....	500	12,320	-	-
Transportation.....	9,000	48,419	-	-
Totals.....	<u>\$ 143,014</u>	<u>\$ 894,433</u>	<u>\$ 9,057</u>	<u>\$ 56,872</u>

*Note: The Commonwealth implemented GASB Statement 75 for fiscal year ending June 30, 2018, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as a result the Annuitant medical/hospital liability that was previously reported in Note 8 is reported in the Plan. See Note 10 for OPEB related information.

NOTE 8 – SELF-INSURANCE LIABILITIES (continued)

The following summary provides aggregated information on June 30, 2017 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2018 and reported self-insurance liabilities at June 30, 2018:

	June 30, 2017	Incurred Claims		Payments		June 30, 2018
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 974,133	\$ 80,813	\$ 24,149	\$ 9,462	\$ 97,432	\$ 972,201
Automobile tort.....	11,859	3,936	(660)	1,249	2,233	11,653
Employee tort.....	64,713	11,691	(21,503)	147	5,471	49,283
General tort.....	12,768	1,180	(261)	49	818	12,820
Transportation.....	57,613	7,699	(1,066)	474	6,353	57,419
Totals.....	<u>\$ 1,121,086</u>	<u>\$ 105,319</u>	<u>\$ 659</u>	<u>\$ 11,381</u>	<u>\$ 112,307</u>	<u>\$ 1,103,376</u>

The beginning balance from the prior year reflects the change in reporting the Annuitant medical/hospital in the OPEB Plan, see *Note above.

The following summary provides aggregated information on June 30, 2016 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2017; and reported self-insurance liabilities at June 30, 2017:

	June 30, 2016	Incurred Claims		Payments		June 30, 2017
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 970,214	\$ 75,088	\$ 39,002	\$ 9,236	\$ 100,935	\$ 974,133
Annuitant medical/hospital*.....	32,326	798,438	-	803,035	-	27,729
Automobile tort.....	11,111	3,064	820	725	2,411	11,859
Employee tort.....	52,692	19,163	(4,114)	8	3,020	64,713
General tort.....	11,572	1,243	803	46	804	12,768
Transportation.....	65,803	9,068	(10,483)	407	6,368	57,613
Totals.....	<u>\$ 1,143,718</u>	<u>\$ 906,064</u>	<u>\$ 26,028</u>	<u>\$ 813,457</u>	<u>\$ 113,538</u>	<u>\$ 1,148,815</u>

See *Note regarding Annuitant medical/hospital

NOTE 9 - PENSION

Pension Systems

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employees. Generally, Commonwealth employees are members of the State Employees’ Retirement System (SERS) and public school employees are members of the Public School Employees’ Retirement System (PSERS). Both the SERS and the PSERS are reported as pension trust funds classified as fiduciary fund component units. The SERS and the PSERS issue stand-alone, audited financial statements which are available at www.sers.pa.gov and www.psers.pa.gov, respectively. Written requests for the SERS or PSERS financial statements should be directed to the following addresses:

State Employees’ Retirement System
30 North Third Street, Suite 150
Harrisburg, PA 17101-1716

Public School Employees’ Retirement System
Bureau of Communications
P.O. Box 125
Harrisburg, PA 17108-0125

Total Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Net Pension Expense – SERS and PSERS

Below is an aggregation of the total net pension liabilities, deferred outflows of resources, deferred inflows of resources, and net pension expense for both SERS and PSERS plans.

	SERS	PSERS	Total
Net Pension Liability.....	\$ 14,261,464	\$ 290,651	\$ 14,552,115
Deferred outflows of resources.....	\$ 2,071,160	\$ 49,805	\$ 2,120,965
Deferred inflows of resources.....	\$ 1,143,488	\$ 1,990	\$ 1,145,478
Net Pension expense.....	\$ 2,011,160	\$ 33,667	\$ 2,044,827

State Employees’ Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established to provide pension benefits for Commonwealth employees and certain other organizations. At December 31, 2017 there were 102 employer state agencies and other organizations participating in the SERS.

Retirement Benefits: Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend plan benefit provisions. The SERS provides retirement, death, and disability benefits. Prior to Act 2010-120 (Act 120), employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50, with at least three years of service. Act 120 preserved all benefits in place for existing members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of their final average salary instead of the previous 2.5%. The new vesting period changed from five to 10 years of credited service, and the option to withdraw lump sum accumulated employee contributions was eliminated. The new normal retirement age is 65 for most employees and age 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

Most members of the SERS, and all covered employees hired after June 30, 2001 and prior to January 1, 2011 (except State Police officers and certain members of the judiciary and legislators), are Class AA members, pursuant to Act 2001-9 (Act 9), signed into law on May 17, 2001. Among other things, Act 9 provides for general annual retirement benefits of 2.5% of the member’s highest three-year average salary (final average salary) multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their year of retirement). The annual benefit is 75% of salary for 25 or more years of service and 50% of salary for 20-24.99 years of service. Judges are entitled to a benefit of 4% of final average salary for each of the first 10 years of service and 3% for subsequent years. District

NOTE 9 - PENSION (continued)

Justices are entitled to a benefit of 3% of final average salary for each year of service. Legislators taking office before December 1, 2010 are Class D-4, which translates into an annual benefit of 3% of the final average salary for each year of service. The general annual benefit for full retirement for Class A members is 2% of the member's highest three-year salary multiplied by years of service. Act 120 of 2010 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011 and December 1, 2010 for legislators newly elected in November 2010. The general annual benefit for Class A-3 members is 2% of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5%.

Contribution Requirements: Commonwealth law establishes the funding policy for all members' contribution rates. The active plan member contribution rate is 6.25% of covered payroll for employees in Class AA; for Class A members, the contribution rate is 5%. The general membership contribution rate under Act 120 for A-3 and A-4 members is 6.25% and 9.3% of salary, respectively. Higher contributions are required for certain members of the General Assembly, judges and district justices who elect higher contribution rates. The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll.

Act 120 imposed annual rate increase collars on employer contributions until no longer needed. The fiscal year ended June 30, 2018, marked the first year the actuarially required employer contribution increase was lower than the collar established for the year of 4.5%. As a result, the rate caps are no longer in effect. Contributions to the SERS from the Commonwealth, including PRPA (a blended component unit) were \$1,669,819 for the year ended June 30, 2018.

Summary of Significant Accounting Policies: The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: Investments are reported at fair value, which is the amount that the SERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. U.S. government securities, corporate and foreign bonds and notes, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales, or valued by valuation committees.

The investments in short-term funds, including those managed by the Treasury Department, are reported at cost plus allocated interest, which approximates fair value. The securities lending collateral pool, which is a fund operated by the securities lending agent, also is reported at cost plus accrued interest, which approximates fair value.

Foreign exchange, futures and swap contracts are marked to market daily with changes in fair value recognized as part of investments and investment income. Real estate investments are valued by the investment manager using discounted cash flows, recent comparable sales and current market conditions to arrive at net asset value. Net asset value approximates fair value. Real estate funds estimated fair values are updated by routine independent appraisals by appraisers who meet specific professional qualifications. The appraisal process involves significant judgment and estimating; thus the value upon sale of an asset may differ from its appraised value. Alternative investment and real estate limited partnerships are valued at net asset value, which are determined by the general partners using processes that have been reviewed and approved by valuation committees. The partnerships' investments, as well as the assumptions and estimates used in developing the net asset values, approximate fair value. Because the investments in such partnerships are generally illiquid and the holding period may last for several years, the value realized by the SERS upon disposition may differ materially from estimated values reflected in the financial statements.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers' fees and those expenses directly related to the SERS' investment operations.

NOTE 9 - PENSION (continued)

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2018, the Commonwealth reported a total net pension liability of \$14,261,464 for its participation in the SERS. The net pension liability attributed to participation in the SERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commonwealth’s proportion of the SERS net pension liability was based on a projection of the Commonwealth’s long-term share of contributions to the pension plan relative to the projected contributions of all participating SERS employers, actuarially determined. At December 31, 2017, the Commonwealth’s reported proportionate share of the SERS net pension liability was 82.48%, which was an increase of .04% from its proportion measured as of December 31, 2016.

As of June 30, 2018, the Commonwealth recognized pension expense of \$2,011,160, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS (December 31, 2017)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience.....	\$ 241,131	\$ 270,792
Differences between employer contributions and proportionate share.....	31,570	22,023
Net difference between projected and actual earnings on plan investments.....	-	567,025
Changes of assumptions.....	714,014	-
Changes in proportion.....	239,810	283,648
Contributions subsequent to measurement date.....	844,635	-
Total.....	<u>\$ 2,071,160</u>	<u>\$ 1,143,488</u>

The \$844,635 reported as deferred outflows of resources related to pensions resulting from Commonwealth contributions to the SERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>SERS (December 31, 2017)</u>
2019.....	\$ 352,571
2020.....	257,534
2021.....	(202,802)
2022.....	(328,778)
2023.....	4,512

Actuarial Assumptions: Every five years, the SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th Investigation of Actuarial Experience study for the period 2011 – 2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability.

Most demographic assumptions remained the same as or similar to experience over the last five years. However, the experience study did recommend changing some assumptions, which are highlighted as follows. The study recommended decreasing disability retirement rates for all active members. Additionally, it recommended adjusting superannuation separation rates, early retirement separation rates, and withdrawal rates for certain active member groupings (gender, age,

NOTE 9 - PENSION (continued)

years of service) in both the general and special membership classes. Furthermore, it recommended decreasing most annuitant and survivor mortality rates. The board adopted the actuarial assumptions set forth in the 18th Investigation of Actuarial Experience at its March 2016 meeting. The study can be viewed at www.sers.pa.gov.

The current set of assumptions used in the December 31, 2017 actuarial valuation, with the exception of the discount rate and inflation assumptions, was adopted by the State Employees' Retirement Board (the Board) based upon actual experience of the SERS during the years 2011 through 2015. In addition to the five-year experience study, the SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2017, measurement date:

Actuarial Cost Method	Entry age
Amortization Method	Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.25% net of expenses including inflation
Projected salary increases	Average of 5.60% with range of 3.7% to 8.9% including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality Rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
Cost of living adjustments	Ad hoc

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class in the SERS current and target asset allocation as of December 31, 2017, are summarized in the following table:

SERS (December 31, 2017)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Private equity.....	16.00%	8.00%
Global public equity.....	43.00%	5.30%
Real estate.....	12.00%	5.44%
Multi-strategy.....	12.00%	5.10%
Fixed income.....	14.00%	1.63%
Cash.....	3.00%	-0.25%
Total.....	100.00%	

NOTE 9 - PENSION (continued)

Discount rate: The SERS discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, the SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore the long-term expected rate of return on the SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate:

The following chart presents the Commonwealth’s proportionate share of the SERS net pension liability using the discount rate of 7.25%, as well as what the Commonwealth’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate.

	1 Percent Decrease (6.25%)	Current Discount Rate (7.25%)	1 Percent Increase (8.25%)
SERS (December 31, 2017)	\$ 18,102,246	\$ 14,261,464	\$ 10,971,390

Payables to the Pension Plan

For the fiscal year ended June 30, 2018, the Commonwealth reported an accounts payable for the employer’s share of retirement contributions to the SERS in the amount of \$79,357.

Public School Employees’ Retirement System

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2018 there were 775 participating employers, generally school districts. In relation to the PSERS, the Commonwealth is a non-employer contributor organization that recognizes a less than substantial portion of the PSERS collective net pension liability.

Benefits: The PSERS provides retirement, disability retirement, death, and health care benefits. Under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member’s final average salary (as defined in the Pennsylvania Public School Employees’ Retirement Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member’s right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Contribution Requirements: The Public School Employees’ Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the PSERS. All school entity employers are reimbursed by the Commonwealth at least 50% of the total employer contributions based on the total contribution rate. The Commonwealth remits 50% of employer contributions for employers other than school entities directly to the PSERS resulting in a special funding situation.

NOTE 9 - PENSION (continued)

The contribution rates for active plan memberships started prior to July 1, 2011 are as follows:

- Membership Class T-C and T-D hired before July 22, 1983 are 5.25% and 6.50% of covered payroll, respectively;
- Membership Class T-C and T-D hired after July 21, 1983, the rates are 6.25% and 7.50%, respectively.

The contribution rates for active plan memberships started on or after July 1, 2011 are as follows:

- Membership Class T-E rates may increase or decrease by 0.5%, but will never go below 7.5% or above 9.5%;
- Membership Class T-F rates may increase or decrease by 0.5%, but will never go below 10.3% or above 12.3%

Act 120 suppressed the employer contribution rate by using rate caps through June 30, 2018 to keep the rate from rising too high, too fast for budgetary purposes. The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior year's rate. For the fiscal year ended June 30, 2014 and thereafter, the rate can increase no more than 4.5% plus the premium assistance contribution rate.

The rate cap remained at 4.5% until the rate cap no longer applied, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time. For the fiscal year June 30, 2017, the actuarially calculated contribution rate exceeded the prior year's rate by less than 4.5%. As a result, the rate caps are no longer in effect. Since the rate caps no longer apply, the employer normal cost is the contribution rate floor. Contributions to the PSERS from the Commonwealth for the employers other than school entities were \$25,763 for the year ended June 30, 2018.

Summary of Significant Accounting Policies: The financial statements of the PSERS are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Member and employer contributions are recognized in the period for which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: The PSERS' investments are reported at fair value. Fair value is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale.

Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national securities exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national securities exchanges or securities pricing services. Securities which are not traded on a national securities exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and, for properties not appraised, the present value of the projected future net income stream is used. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2018, \$132,000 in an open-ended repurchase agreement were netted against the related property valuation. The repurchase agreement is payable at an interest rate equivalent to one month of the LIBOR plus 40 basis points and is collateralized by certain fixed income investments of the PSERS.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which regulatory agencies such as the Securities and Exchange Commission have regulatory oversight. Investments that are not subject to this oversight are subject to annual independent audits.

The fair value of equity real estate, private equity, private debt, and venture capital are determined using the NAV per share (or its equivalent) of the PSERS' ownership interest in partners' capital.

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2018, the Commonwealth reported a liability of \$290,651 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commonwealth's proportion of the net pension

NOTE 9 - PENSION (continued)

liability was calculated by dividing the plan’s total covered payroll by the sum of all employers’ covered payroll. The Commonwealth remits directly to the PSERS 50% of the employer contributions for employers other than school entities. At June 30, 2017 the Commonwealth’s proportion was .5885%, which was a decrease of .0003% from its proportion measured as of June 30, 2016.

As a result of its requirement to contribute to the PSERS, the Commonwealth recognized an expense of \$33,667 for the year ended June 30, 2018. At June 30, 2018 the Commonwealth reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to the PSERS:

	PSERS (June 30, 2017)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience.....	\$ 3,032	\$ 1,756
Differences between employer contributions and proportionate share.....	-	125
Net difference between projected and actual earnings on plan investments.....	6,735	-
Changes of assumptions.....	7,896	-
Changes in proportion.....	6,379	109
Contributions subsequent to measurement date.....	25,763	-
Total.....	\$ 49,805	\$ 1,990

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**Other Postemployment Benefits**

The Commonwealth of Pennsylvania participates in six postemployment benefit plans other than pensions (OPEB). The Commonwealth participates as an employer in five plans: The Retired Employees Health Program (REHP), the Retired Pennsylvania State Police Program (RPSPP), the Unified Judicial System's Postemployment Medical Plan (Judiciary), Pennsylvania House of Representatives Postemployment Benefits Plan (House), and the Senate of Pennsylvania Other Postemployment Benefits Plan (Senate). The Commonwealth participates as a governmental nonemployer contributing entity in the Public School Employees' Retirement System Health Insurance Premium Assistance Program (Premium Assistance).

Plan Administration

The Commonwealth established and sponsors two primary plans which provide postemployment benefits other than pensions (OPEB). These two plans are the REHP and the RPSPP and both are established as trust equivalent arrangements. These two plans are administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator for the REHP and RPSPP under an administrative agreement with the Commonwealth. Both plans are single-employer defined benefit OPEB plans that include Commonwealth agencies and some component units. The REHP is provided as a part of collective bargaining agreements with most Commonwealth labor unions. The RPSPP is provided as a part of collective bargaining agreements with certain Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP and RPSPP fall under the purview of the Commonwealth's Executive Board, Secretary of Administration, and for the RPSPP the collective bargaining agreement with the Pennsylvania State Troopers Association. Neither the REHP nor the RPSPP have a governing board. The REHP offers postemployment healthcare and prescription benefits. The RPSPP offers postemployment healthcare, prescription, vision and dental benefits.

The Judiciary has established and sponsors their own single-employer defined-benefit OPEB plan. A trust or equivalent arrangement meeting the requirements of GASB 74 has not been established for the Judiciary OPEB plan and assets have not been accumulated to fund OPEB. All policy decisions related to the types and levels of benefits including changes to benefit terms and authority to pay benefits as they come due for the Judiciary OPEB plan, fall under the purview of the Supreme Court. The Judiciary OPEB plan does not have a governing board. The Judiciary OPEB plan offers postemployment healthcare, prescription, vision, and dental benefits.

The House of Representatives has established and sponsors their own single-employer defined-benefit OPEB plan. A trust or equivalent arrangement meeting the requirements of GASB 74 has not been established for the House OPEB plan and assets have not been accumulated to fund OPEB. All policy decisions related to the types and levels of benefits including changes to benefit terms, and authority to pay benefits as they come due for the House OPEB plan, fall under the purview of the House of Representatives. The House OPEB plan does not have a governing board. The House OPEB plan offers postemployment healthcare, prescription and for certain members vision, dental and long-term care benefits.

The Senate has established and sponsors their own single-employer defined-benefit OPEB plan. A trust or equivalent arrangement meeting the requirements of GASB 74 has not been established for the Senate OPEB plan and assets have not been accumulated to fund OPEB. All policy decisions related to the types and levels of benefits including changes to benefit terms, and authority to pay benefits as they come due for the Senate OPEB plan, fall under the purview of the Senate. The Senate OPEB plan does not have a governing board. The Senate OPEB plan offers postemployment healthcare, prescription and for certain members vision and dental benefits.

The Premium Assistance plan is a governmental cost sharing, multiple-employer other postemployment benefit plan for all public school eligible retirees who qualify and elect to participate. The Premium Assistance plan is under the control and management of the Board of Trustees of the Public School Employees Retirement System, including the investment of its assets, and all policy decisions related to types and levels of benefits, and authority to pay benefits as they come due. As of June 30, 2017, there were no assumed future benefit increases to participating members of the Premium Assistance plan.

Benefits Provided

Benefit provisions included in the REHP, Judiciary, House, and Senate plans are established and may be amended by the establishing sponsor of the given OPEB plan. The RPSPP, under the terms of the collective bargaining agreement, cannot be amended for existing retirees. The Commonwealth's General Assembly has the authority to amend the benefit terms of the

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Premium Assistance plan. Each OPEB plan provides postemployment healthcare and prescription benefits to varying degrees. The RPSPP, Judiciary, House and Senate provide specific dental, hearing, vision, and long-term care benefits. RPSPP benefits are provided in accordance with the collective bargaining agreement that was in effect at the time of retirement. The REHP, RPSPP, Judicial, House, and Senate OPEB plans do not issue stand-alone financial reports and are not included in the financial statements of a public employee retirement system. The Premium Assistance OPEB plan is reported in the Public School Employees Retirement System Comprehensive Annual Financial Report which can be found at www.pasers.pa.gov.

Eligibility and Retiree Contributions

Eligible employees who retire from the Commonwealth and meet one of the following eligibility criteria are eligible to receive REHP benefits:

- 25 or more years of service;
- 20 or more years of service and superannuation age – age 50 for Park Rangers, Capitol Police and certain enforcement officers or age 60 for all other employees (age 55 or 65 for employees subject to Act 120 of 2010);
- Disability retirement – requires five years of service (no service requirements for enforcement officers).
- For employees who retired after June 30, 2005 and before July 1, 2007 the retiree contribution is set at 1% of employee's final annual salary. Most Commonwealth employees who retired on or after July 1, 2007 but before July 1, 2011 are currently required to pay retiree contributions of 3% of either their final annual salary or final average salary, whichever is less. Most employees who retire on or after July 1, 2011 are currently required to pay retiree contributions of 3% of their final average salary. Upon enrollment in Medicare, Commonwealth employees who are currently paying 3% will pay retiree contributions of 1.5% of either their final annual salary or final average salary, whichever applies.

RPSPP

Permanent enlisted employees of the Pennsylvania State Police who retire from the Commonwealth and meet one of the following eligibility criteria are eligible to receive RPSPP benefits:

- Superannuation retirement (excluding vested employees) – age 50 (age 55 for employees subject to Act 120 of 2010) with three years of service;
- Retirement with at least 25 years of Commonwealth service;
- Retirement with at least 20 but less than 25 years of service, with at least 10 years of enlisted service with State Police (military time, civilian service with another Commonwealth agency are not considered service with the State Police);
- Disability retirement – no service requirement.
- RPSPP plan members are not required to make contributions.

Judicial

Eligible employees (members and staff) who retire from the Unified Judicial System and meet one of the following eligibility criteria are eligible to receive Judicial benefits:

- Staff:
 - Prior to attaining age 60 and retiring before/after January 1, 2001:
 - The retiree will pay 100% of the premium if retiring with less than 20/25 years of total service and less than 3/5 years of judiciary service
 - The retiree will pay 75% of the premium if retiring with less than 20/25 years of service and more than 3/5 years of judiciary service.
 - The retiree will pay between 75% and 25% of the premium if retiring with 20/25 years or more of service and less than 3/5 years of judiciary service
 - The retiree will pay 1% of pension if retiring with 20/25 years or more of service and more than 3/5 years of judiciary service.
 - After attaining age 60 and retiring before/after January 1, 2001:
 - The retiree will pay 100% of the premium if retiring with less than 10/15 years of total service and less than 3/5 years of judiciary service
 - The retiree will pay 75% of the premium if retiring with less than 10/15 years of service and more than 3/5 years of judiciary service.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

- The retiree will pay between 75% and 25% of the premium if retiring with 10/15 years or more of service and less than 3/5 years of judiciary service
 - The retiree will pay 1% of pension if retiring with 10/15 years or more of service and more than 3/5 years of judiciary service.
 - Judges/ District Justices:
 - Prior to attaining age 60:
 - The retiree will pay 1% of pension/75% of the premium if retiring with more than 10 and less than 18 years of judiciary service
 - The retiree will pay 1% of pension if retiring with more than 18 years of judiciary service
 - After attaining age 60:
 - The retiree will pay 75% of the premium if retiring with more than 3 and less than 10 years of judiciary service
 - The retiree will pay 1% of pension if retiring with more than 18 years of judiciary service

House

Eligible employees (members and staff) who retire from the House of Representatives and meet one of the following eligibility criteria are eligible to receive House benefits:

- Members:
 - Age 49 or younger with at least 10 years of creditable service, but less than 10 years as a legislator:
 - The House will pay \$5 per month towards the premium for Medical and prescription drug coverage. The retiree must pay the remainder.
 - Age 49 or younger with at least 10 years as a legislator (after December 1, 1992 any creditable service), age 50 or older with at least 10 years of creditable service or member retired under disability with at least 5 years of SERS eligible service:
 - The House will pay 100% of the premiums. Beginning 2012, the retiree must contribute 1% of the retiree’s final salary. Members that retired prior to November 30, 1980 are eligible for medical and prescription drug coverage. Members that retired after December 1, 1980 are eligible for medical, prescription drug, vision and dental coverage. Members that retired after December 1, 1992 are eligible for medical, prescription drug, vision, dental and long-term health care coverage.
- Staff:
 - Age 59 or younger with between 10 to 24 years of creditable service:
 - The House will pay \$5 per month towards the premium for medical and prescription drug coverage.
 - Age 60 or older with at least 10 years of creditable service or at least 25 years of creditable service:
 - The House will pay 100% of the premiums for medical and prescription drug coverage. If the retiree has at least 12.5 years of legislative service and the last 3 years are as an employee of the House, the retiree will receive 100% paid vision and dental coverage. Beginning January 1, 2012, the retiree must contribute 1% of the retiree’s final salary annually.

Senate

Eligible employees (members and staff) who retire from the Senate and meet one of the following eligibility criteria are eligible to receive Senate benefits:

- Option 1
 - For employees hired prior to October 3, 2006, individuals must have 25 years of credited service, of which 12 ½ years of such credited service were with the Legislature, and further provided that the last three (3) continuous years (4,950 hours) of credited service were with the Senate.
 - For employees hired on or after October 3, 2006, individuals must have 30 years of credited service, of which 20 years of such credited service were with the Senate and had at least 5 continuous years of credited service with the Senate.
 - Retiree contribution rates are based on salary with rates equal to 1% of their final salary for all benefits.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

- Option 2
 - For employees hired prior to October 3, 2006, individuals must be a minimum of age 60 with 10 or more years of credited service and worked for the Senate for at least 18 continuous months in the most recent employment period with the Senate.
 - For employees hired on or after October 3, 2006, individual must be a minimum of age 60 with 20 or more years of credited service and worked for the Senate for at least 5 continuous years in the most recent employment period with the Senate.
 - Retiree contribution rates are based on salary with rates equal to 1% of their final salary for all benefits.

GASB 74 Plan Reporting

REHP and RPSPP

Plan Membership

At June 30, 2018 and June 30, 2017, the REHP and the RPSPP OPEB plan membership consisted of the following (actual number of plan members):

	<u>Census date</u> <u>December 31, 2017</u>	
	<u>REHP</u>	<u>RPSPP</u>
Inactive plan members or beneficiaries currently receiving benefit payments.....	64,308	5,067
Inactive plan members entitled to but not yet receiving benefit payments.....	16,166	-
Active plan members.....	<u>70,374</u>	<u>4,304</u>
Total all plan members.....	<u>150,848</u>	<u>9,371</u>

Employer Contributions

REHP employer contributions are contractually required and established by the Office of Administration and the Office of the Budget. All participating agencies and certain plan members must contribute specified amounts to the REHP. During the fiscal year ended June 30, 2018, almost all REHP participating agencies began the fiscal year contributing \$350 (whole dollars), which was lowered to \$300 and subsequently lowered to \$188 for each current active REHP eligible employee per biweekly pay period to fund the REHP. Several participating agencies contribute under different but comparable payment arrangements.

RPSPP employer contribution requirements are established by the Office of Administration and the Office of the Budget. During the fiscal years ended June 30, 2018 participating agencies contributed \$1,200 (whole dollars) for each current RPSPP eligible active employee per biweekly pay period to fund the RPSPP.

The REHP and RPSPP funding rates needed to fund current year annuitant health care costs are established as part of the Commonwealth’s annual budgeting process. During the fiscal year ended June 30, 2018, the Commonwealth funded \$541,796 (estimated) of annuitant health care claims and administrative costs for the REHP and \$132,813 (estimated) of annuitant health care claims and administrative costs for the RPSPP, respectively. Any additional contributions to advance fund annuitant health care liabilities are determined annually by the Commonwealth. During the fiscal year ended June 30, 2018, advance funding of \$50,000 for REHP and \$1,000 for the RPSPP was contributed to the Other Postemployment Benefits Investment Pool, a pension (and other employee benefit) trust fund. Determinations of advance funding amounts are evaluated annually. The REHP and RPSPP maintain reserves for claims that are Incurred But Not Paid. At June 30, 2018, the REHP and RPSPP recorded \$25,932 and \$7,023, respectively.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Specific Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation with a measurement date as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	<u>REHP/RPSPP</u>
Actuarial cost method.....	Entry age normal
Method used to determine actuarial value of assets....	Market value
Investment returns.....	5.00%
Inflation rate assumption.....	2.60%
Payroll growth.....	2.90%
Cost of living adjustment.....	N/A
Healthcare cost trend rates.....	5.9% for 2018 decreasing to an ultimate rate of 4.1% for 2075 and later years
Medicare Retiree.....	6.2% for 2018 decreasing to an ultimate rate of 4.1% for 2075 and later years
Non-Medicare retiree.....	and later years

Mortality rates were based on the RP-2000 Male and Female Combined Health Mortality Tables projected (using Projection Scale AA) to 2016 for males and to 2020 for females, and then further adjusted to ensure sufficient margin improvement in certain age ranges. Disabled participants mortality rates were based on the RP-2000 Male and Female Disabled Retiree Mortality Tables projected (using Projection Scale AA) to 2021 for males and to 2017 for females. Each table includes a margin for future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2018 valuation were based on the State Employees’ Retirement System (SERS) experience study that covered the years 2011 through 2015. The approved recommendations from that study were used to determine the assumptions for this valuation, where applicable. The inflation assumption was selected by the SERS Board during an April 2017 meeting based on a review of actual plan experience and the prevalent economic outlook. Consistent with prior valuations, these demographic assumptions assume beginning of year decrements (retirement, withdrawal, death, disability, etc.). For the employers that contribute to the REHP plan in accordance with a special contribution arrangement, the withdrawal assumption is increased by a factor of 2.0 for one year of service or less and increased by 10 percentage points for service of 2 years through 9 years.

Investments

The assets of both the REHP and RPSPP are managed by the Commonwealth’s Treasury Department in an investment pool. The OPEB investments are made based upon an interagency agreement, dated June 17, 2008, and the prudent investor standard set forth in the Commonwealth of Pennsylvania’s fiscal code 72P.S. §30.1, amendment to the fiscal code, the Principles of Prudent Investors Standards.

<u>Asset Class</u>	<u>REHP</u> <u>Target</u> <u>Allocation</u>	<u>RPSPP</u> <u>Target</u> <u>Allocation</u>
Domestic equity.....	47.00%	47.00%
International equity.....	20.00%	20.00%
Fixed income.....	25.00%	25.00%
Real estate.....	8.00%	8.00%
Cash and cash equivalents.....	0.00%	0.00%
Total	100.00%	100.00%

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Concentration

Based on a portfolio value of \$359,109 for the REHP and \$103,187 for the RPSPP, the following investment concentrations existed as of June 30, 2018. In order to achieve the target return and to keep costs low, asset classes have been populated with Exchange-Traded Funds (ETFs) and low cost mutual funds.

Issuer Name	REHP		RPSPP	
	Amount	% of Total Portfolio	Amount	% of Total Portfolio
ISHARES.....	\$ 144,651	40.28%	\$ 41,565	40.28%
VANGUARD.....	84,217	23.45%	24,199	23.45%
SPDR S&P 500.....	43,165	12.02%	12,403	12.02%
MACQUARIE.....	27,605	7.69%	7,932	7.69%
POWERSHARES.....	28,010	7.80%	8,048	7.80%
TREASURY OPEB FUND.....	31,461	8.76%	9,040	8.76%
Total	\$ 359,109	100.00%	\$ 103,187	100.00%

Rate of Return

For the year ended June 30, 2018, the annual rate of return on investments, net of investment expense was 13.27%. The rate of return expresses investment performance, net of investment expense, adjusted for changing amounts invested.

The long-term expected rate of return on OPEB plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	REHP	RPSPP
International equity.....	8.60%	8.60%
Domestic equity.....	6.60%	6.60%
Real estate.....	6.90%	6.90%
Fixed income.....	3.00%	3.00%
Cash and cash equivalents.....	1.00%	1.00%

Net OPEB Liability

The net OPEB liability represents the liability of the employers contributing to the plan for benefits provided through a defined benefit OPEB plan that is administered through a trust or trust equivalent. The components of the net OPEB liability for the participating employers at June 30, 2018 were as follows:

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

	<u>REHP</u>	<u>RPSPP</u>
Total OPEB liability.....	\$ 15,015,975	\$ 5,981,598
Plan fiduciary net position.....	(333,848)	(96,357)
Net OPEB liability.....	<u>\$ 14,682,127</u>	<u>\$ 5,885,241</u>
Plan fiduciary net position as a percentage of the total OPEB liability.....	2.22%	1.61%

Discount Rate

The discount rate used to measure the total OPEB liability of the REHP and RPSPP was 3.87% as of June 30, 2018. This single discount rate was based on the 20-year Bond Buyer GO Index municipal bond rate as of the end of June 2018. Since REHP and RPSPP have insufficient assets to meet next year’s projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each fiscal year end assumed that employer contributions will be made based on the current funding policy for future years.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability for the REHP and the RPSPP OPEB plans of the Commonwealth, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

<u>Net OPEB Liability</u>	<u>Discount Rate</u>		
	<u>1% Decrease</u> 2.87%	3.87%	<u>1% Increase</u> 4.87%
REHP.....	\$ 16,820,780	\$ 14,682,127	\$ 12,920,156
RPSPP.....	\$ 6,929,075	\$ 5,885,241	\$ 5,054,182

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability for the REHP and RPSPP OPEB plans of the Commonwealth, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates.

<u>Net OPEB Liability</u>	<u>Healthcare Cost Trend Rates</u>		
	<u>1% Decrease</u> 5.2%/4.9% decreasing to 3.1%	6.2%/5.9% decreasing to 4.1%	<u>1% Increase</u> 7.2%/6.9% decreasing to 5.1%
REHP.....	\$ 12,603,440	\$ 14,682,127	\$ 17,265,928
RPSPP.....	\$ 5,017,129	\$ 5,885,241	\$ 6,979,861

PSERS OPEB Plans:

The Public School Employees Retirement System (PSERS), a component unit, provides two voluntary postemployment healthcare programs for all eligible retired public school employees (annuitants) who qualify and elect to participate. The Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP).

Under the Premium Assistance employer contribution rates are established to provide reserves that are sufficient for the Premium Assistance benefits for each succeeding year. For June 30, 2018, the employer contribution to the Premium Assistance was 0.83% of the total employer contribution to the PSERS. Participating eligible annuitants are entitled to receive the lesser of \$100 per month or their out-of-pocket monthly health insurance premium.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

The HOP is a voluntary health insurance program for the sole benefit of annuitants, spouses of annuitants, survivor annuitants and their dependents. The HOP is funded exclusively by the premiums paid by its participants. Participants may select among two self-funded Medicare supplement plans, three Medicare Rx plans, and multiple Medicare Advantage plans. Participants not eligible for Medicare have a choice of a self-funded high deductible indemnity plan and multiple managed care plans. The HOP maintains reserves for claims that are Incurred But Not Reported (IBNR) and for claim fluctuation for the self-funded benefit plans. At June 30, 2018, the PSERS recorded \$17,880 in IBNR.

GASB 75 Employer Reporting

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and OPEB Expense – All Plans

Below is an aggregation of the total OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense for all six postemployment benefit plans.

	<u>REHP*</u>	<u>RPSPP*</u>	<u>Judiciary</u>	<u>House</u>	<u>Senate</u>	<u>Premium Assistance*</u>	<u>Total</u>
OPEB liability							
Primary government.....	\$ 18,651,174	\$ 6,115,992	\$ 685,857	\$ 633,058	\$ 392,365	\$ 11,990	\$ 26,490,436
Discretely presented component units.....	\$ 1,270,183	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,270,183
Deferred outflows of resources							
Primary government.....	\$ 554,714	\$ 133,813	\$ -	\$ 19,881	\$ -	\$ 690	\$ 709,098
Discretely presented component units.....	\$ 33,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,111
Deferred inflows of resources							
Primary government.....	\$ 1,714,957	\$ 668,521	\$ -	\$ 43,799	\$ -	\$ 564	\$ 2,427,841
Discretely presented component units.....	\$ 130,244	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130,244
OPEB expense							
Primary government.....	\$ 790,037	\$ 243,528	\$ 47,434	\$ 43,432	\$ 17,400	\$ 511	\$ 1,142,342
Discretely presented component units.....	\$ 59,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,375

*Administered through a trust

Plans Administered Through Trusts – REHP and RPSPP

Plan Membership

At June 30, 2017, the REHP and the RPSPP OPEB plan membership consisted of the following (actual number of plan members):

	<u>Census date</u>	<u>December 31, 2016</u>
	<u>REHP</u>	<u>RPSPP</u>
Inactive plan members or beneficiaries currently receiving benefit payments.....	63,974	4,907
Inactive plan members entitled to but not yet receiving benefit payments.....	12,912	-
Active plan members.....	71,681	4,299
Total all plan members.....	148,567	9,206

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Employer Contributions

REHP employer contributions are contractually required and established by the Office of Administration and the Office of the Budget. All participating agencies and certain plan members must contribute specified amounts to the REHP. During the fiscal year ended June 30, 2017, almost all REHP participating agencies contributed \$362 (whole dollars) for each current, active REHP eligible employee per biweekly pay period to fund the REHP. Several participating agencies contribute under different but comparable payment arrangements.

RPSPP employer contribution requirements are established by the Office of Administration and the Office of the Budget. During the fiscal year ended June 30, 2017 participating agencies contributed \$1,140 (whole dollars) for each current RPSPP eligible active employee per biweekly pay period to fund the RPSPP.

The REHP and RPSPP funding rates needed to fund current year annuitant health care costs are established as part of the Commonwealth’s annual budgeting process. During the fiscal year ended June 30, 2017, the Commonwealth funded \$603,720 (estimated) of annuitant health care claims and administrative costs for the REHP and \$122,870 (estimated) of annuitant health care claims and administrative costs for the RPSPP. Any additional contributions to advance fund annuitant health care liabilities are determined annually by the Commonwealth. During the fiscal year ended June 30, 2017, advance funding of \$50,000 for REHP was contributed to the Other Postemployment Benefits Investment Pool. Neither the REHP nor the RPSPP annual required contribution has ever been fully funded. Determinations of advance funding amounts are evaluated annually.

Net OPEB Liability

The net OPEB liability for both the REHP and the RPSPP was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

	<u>REHP/RPSPP</u>
Actuarial cost method.....	Entry age normal
Method used to determine actuarial value of assets....	Market value
Investment returns.....	5.00%
Inflation rate assumption.....	2.60%
Payroll growth.....	2.90%
Cost of living adjustment.....	N/A
	6.00% for 2017 decreasing to an ultimate rate of 3.90% for 2075
Healthcare cost trend rates.....	and later years

Mortality rates were based on the RP-2000 Male and Female Combined Health Mortality Tables projected (using Projection Scale AA) to 2016 for males and to 2020 for females, and then further adjusted to ensure sufficient margin improvement in certain age ranges. Disabled participants mortality rates were based on the RP-2000 Male and Female Disabled Retiree Mortality Tables projected (using Projection Scale AA) to 2021 for males and to 2017 for females. Each table includes a margin for future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2017 valuation were based on the State Employees’ Retirement System (SERS) experience study that covered the years 2011 through 2015. The approved recommendations from that study were used to determine the assumptions for this valuation, where applicable. The inflation assumption was selected by the SERS Board during an April 2017 meeting based on a review of actual plan experience and the prevalent economic outlook. Consistent with prior valuations, these demographic assumptions assume beginning of year decrements (retirement, withdrawal, death, disability, etc.). For the employers that contribute to the REHP plan in accordance with a special contribution arrangement, the withdrawal assumption is increased by a factor of 2.0 for one year of service or less and increased by 10 percentage

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

points for service of 2 years through 9 years. Cost of living adjustments (COLA) may be granted on an ad hoc basis, there were no COLAs granted during the measurement period.

The long-term expected rate of return on OPEB plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	REHP	RPSPP
International equity.....	8.50%	8.50%
Domestic equity.....	7.50%	7.50%
Real estate.....	7.50%	7.50%
Fixed income.....	3.00%	3.00%
Cash and cash equivalents.....	1.00%	1.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 3.58% as of June 30, 2017. This single discount rate was based on the 20-year Bond Buyer GO Index municipal bond rate as of the end of June 2017. Since REHP and RPSPP have insufficient assets to meet next year’s projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each fiscal year end assumed that employer contributions will be made based on the current funding policy for future years.

Changes in the Net OPEB Liability

REHP	PRIMARY GOVERNMENT			DISCRETELY PRESENTED COMPONENT UNITS		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)	Total OPEB Liability (c)	Plan Fiduciary Net Position (d)	Net OPEB Liability (c)-(d)
Balance at June 30, 2016.....	\$ 20,380,612	\$ 189,949	\$ 20,190,663	\$ 1,385,144	\$ 9,302	\$ 1,375,842
Changes for the year						
Service cost.....	570,385	-	570,385	43,355	-	43,355
Interest.....	589,160	-	589,160	40,257	-	40,257
Changes in assumptions- discount rate	(2,060,205)	-	(2,060,205)	(153,293)	-	(153,293)
Benefit payments						
Employer paid.....	(561,346)	(561,346)	-	(32,179)	(32,179)	-
Contributions						
Employer.....	-	614,569	(614,569)	-	34,790	(34,790)
Administrative expenses.....	-	(5,884)	5,884	-	(288)	288
Net investment income						
Expected earnings.....	-	10,667	(10,667)	-	522	(522)
Difference between projected and actual earnings...	-	19,477	(19,477)	-	954	(954)
Net Change.....	(1,462,006)	77,483	(1,539,489)	(101,860)	3,799	(105,659)
Balance at June 30, 2017.....	\$ 18,918,606	\$ 267,433	\$ 18,651,174	\$ 1,283,284	\$ 13,101	\$ 1,270,183

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

	PRIMARY GOVERNMENT		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(e)	(f)	(e)-(f)
Balance at June 30, 2016.....	\$ 6,746,387	\$ 82,532	\$ 6,663,855
Changes for the year.....			
Service cost.....	193,336	-	193,336
Interest.....	196,049	-	196,049
Changes in assumptions - discount rate	(803,662)	-	(803,662)
Benefit payments.....			
Employer paid.....	(122,452)	(122,452)	-
Contributions.....			
Employer.....	-	122,870	(122,870)
Administrative expenses.....	-	(417)	417
Net investment income.....			
Expected investment earnings.....	-	4,127	(4,127)
Difference between projected and actual earnings...	-	7,006	(7,006)
Net Change.....	(536,729)	11,134	(547,863)
June 30, 2017.....	\$ 6,209,658	\$ 93,666	\$ 6,115,992

For the June 30, 2017 measurement, both the REHP and RPSPP experienced a gain due to changes in assumptions caused by the increase in discount rate from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability for the REHP and the RPSPP OPEB plans of the Commonwealth, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

REHP	Discount Rate		
	1% Decrease	3.58%	1% Increase
Net OPEB liability	2.58%	3.58%	4.58%
Primary Government.....	\$ 21,852,961	\$ 18,651,174	\$ 16,527,144
Discretely presented component units.....	\$ 1,501,831	\$ 1,270,183	\$ 1,106,927

RPSPP	Discount Rate		
	1% Decrease	3.58%	1% Increase
Net OPEB liability	2.58%	3.58%	4.58%
Net OPEB liability.....	\$ 7,360,657	\$ 6,115,992	\$ 5,301,271

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the REHP and RPSPP OPEB plans Commonwealth, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

REHP	Healthcare Cost Trend Rates		
	1% Decrease		1% Increase
	5.0% decreasing to 2.9%	6.0% decreasing to 3.9%	7.0% decreasing to 4.9%
Net OPEB Liability			
Primary Government.....	\$ 16,185,830	\$ 18,651,174	\$ 22,341,079
Discretely presented component units....	\$ 1,077,673	\$ 1,270,183	\$ 1,546,498

RPSPP	Healthcare Cost Trend Rates		
	1% Decrease		1% Increase
	5.0% decreasing to 2.9%	6.0% decreasing to 3.9%	7.0% decreasing to 4.9%
Net OPEB Liability.....	\$ 5,261,807	\$ 6,115,992	\$ 7,413,819

OPEB Expense and Deferred Outflows and Deferred Inflows

For the year ended June 30, 2017, the primary government recognized OPEB expense of \$790,037 and \$243,528 for the REHP and the RPSPP, respectively, and the discretely presented component units recognized OPEB expense of \$59,375 for the REHP.

At June 30, 2017, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources are listed below:

REHP	Deferred Outflows of Resources		Deferred Inflows of Resources	
	Primary Government	Discretely Presented Component Units	Primary Government	Discretely Presented Component Units
Employer contributions subsequent to measurement date.....	\$ 554,714	\$ 33,111	\$ -	\$ -
Changes in assumptions.....	-	-	(1,699,376)	(129,481)
Net difference between projected and actual investment earnings.....	-	-	(15,581)	(763)
Total.....	\$ 554,714	\$ 33,111	\$ (1,714,957)	\$ (130,244)

RPSPP	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to measurement date.....	\$ 133,813	\$ -
Changes in assumptions.....	-	(662,917)
Net difference between expected and actual plan experience.....	-	(5,604)
Total.....	\$ 133,813	\$ (668,521)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Amounts reported as deferred outflows or resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

REHP Year ended June 30:	Primary	Discretely Presented
	Government	Component Units
2018.....	\$ (364,725)	\$ (24,003)
2019.....	\$ (364,725)	\$ (24,002)
2020.....	\$ (364,725)	\$ (23,986)
2021.....	\$ (364,723)	\$ (23,986)
2022.....	\$ (256,034)	\$ (18,675)
Thereafter.....	\$ (25)	\$ (15,592)

RPSPP Year ended June 30:	Primary
	Government
2018.....	\$ (142,147)
2019.....	\$ (142,147)
2020.....	\$ (142,147)
2021.....	\$ (142,148)
2022.....	\$ (99,932)

Plans Not Administered Through Trusts – Judiciary, House and Senate

Plan Membership

The Judiciary, House, and Senate OPEB plan membership consisted of the following (actual number of plan members):

	Census date	February 28, 2018	March 31, 2017	July 1, 2017
		Judiciary	House	Senate
Inactive plan members or beneficiaries currently receiving benefit payments.....		1,511	1,101	483
Inactive plan members entitled to but not yet receiving benefit payments.....		-	-	-
Active plan members.....		1,950	1,730	759
Total all plan members.....		3,461	2,831	1,242

Employer Contributions

During the fiscal year ended June 30, 2018, the Judiciary funded \$23,152 of annuitant health care claims and administrative costs. The contribution policy of the Judiciary is to pay OPEB benefits as they come due. The Judiciary does not prefund its OPEB. The authority to pay OPEB benefits as they come due for the Judiciary OPEB plan, fall under the purview of the Supreme Court.

During the fiscal year ended June 30, 2018, the House funded \$18,692 of annuitant health care claims and administrative costs. The contribution policy of the House is to pay OPEB benefits as they come due. The authority to pay OPEB benefits as they come due fall under the purview of the House.

During the fiscal year ended June 30, 2018, the Senate funded \$9,142 of annuitant healthcare claims and administrative costs. The contribution policy of the Senate is to pay OPEB benefits as they come due. The authority to pay OPEB benefits as they come due fall under the purview of the Senate.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Total OPEB Liability

The Judiciary, House and Senate reported a total OPEB liability for the fiscal year ended June 30, 2018. The valuation date and measurement date differed for each plan.

	<u>Judiciary</u>	<u>House</u>	<u>Senate</u>
Total OPEB liability reported June 30, 2018.....	\$ 685,857	\$ 633,058	\$ 392,365
Valuation date.....	June 30, 2018	July 1, 2016	July 1, 2017
Measurement date.....	June 30, 2018	July 1, 2017	June 30, 2018

Actuarial Assumptions and Other Inputs

The total OPEB liability in the GASB 75 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>Judiciary</u>	<u>House</u>	<u>Senate</u>
Inflation.....	2.20%	N/A	N/A
Salary increases.....	3.00%	2.90%	3.50%
Discount rate.....	3.87%	3.13%	3.50%
Healthcare cost trend rates.....	5.5% to 3.84%	6.00% to 3.90%	9.00% to 5.00%
Retirees share of benefit-related costs.....	1% to 100%	1.00%	1.00%
Cost of living adjustments.....	N/A	N/A	N/A

The discount rate was based on:

Judiciary— Bond Buyer General Obligation 20-Year Municipal Bond Index at June 30, 2018

House— S&P Municipal Bond 20-year High Grade Rate Index at July 1, 2017

Senate— An average of three 20-year bond indices (Bond Buyer-20 Bond GO, S&P Municipal Bond 20 Year High Grade Rate index, Fidelity GA AA 20 Years) as of June 30, 2018.

Mortality rates were based on:

Judiciary— the RP-2000 Healthy Annuitant Mortality Table for Males or Females using projection scale AA.

House— the RP-2000 Health Annuitant Mortality Table for Males or Females using projection scale AA.

Senate— the RP-2014 for Male or Female using projection scale AA

Changes in the Total OPEB Liability

	<u>Judiciary</u>	<u>House</u>	<u>Senate</u>
	(June 30, 2018)	(June 30, 2017)	(June 30, 2018)
Total OPEB liability at beginning of fiscal year	\$ 661,575	\$ 652,117	\$ 384,107
Changes for the year:			
Service cost.....	22,279	32,884	4,116
Interest.....	25,155	16,804	13,284
Changes in assumptions or other inputs.....	-	(50,056)	-
Benefit payments.....	(23,152)	(18,692)	(9,142)
Net Changes.....	24,282	(19,060)	8,258
Total OPEB liability at end of fiscal year	\$ 685,857	\$ 633,057	\$ 392,365

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Judiciary, House and Senate, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate:

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Total OPEB liability	Discount		@ Discount	
	Rate	1% Decrease	Rate	1% Increase
Judiciary.....	3.87%	\$ 813,812	\$ 685,857	\$ 618,227
House.....	3.13%	\$ 733,174	\$ 633,058	\$ 551,947
Senate.....	3.50%	\$ 496,747	\$ 392,365	\$ 318,790

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Judiciary, House and Senate, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates.

Total OPEB liability	Healthcare Cost		@ Healthcare	
	Trend Rate	1% Decrease	Cost Trend Rate	1% Increase
Judiciary.....	5.50% to 3.84%	\$ 621,095	\$ 685,857	\$ 807,988
House.....	6.00% to 3.90%	\$ 531,569	\$ 633,058	\$ 763,242
Senate.....	9.00% to 5.00%	\$ 312,558	\$ 392,365	\$ 510,364

OPEB Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Judiciary, House and Senate recognized OPEB expense of \$47,434, \$43,432, and \$17,400, respectively. At June 30, 2018, the Judiciary, House and Senate reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources			Deferred Inflows of Resources		
	Judiciary	House	Senate	Judiciary	House	Senate
Changes in assumptions or other inputs.....	\$ -	\$ -	\$ -	\$ -	\$ 43,799	\$ -
Contributions subsequent to measurement date.....	-	19,881	-	-	-	-
Total.....	\$ -	\$ 19,881	\$ -	\$ -	\$ 43,799	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	House
Year ended June 30:	
2019.....	\$ 6,257
2020.....	\$ 6,257
2021.....	\$ 6,257
2022.....	\$ 6,257
2023.....	\$ 6,257
Thereafter.....	\$ 12,514
Total.....	\$ 43,799

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Special Funding Situation – Premium Assistance Plan

As a governmental nonemployer contributing entity in the Premium Assistance plan, the Commonwealth is required to contribute 50% of the employers share of the OPEB contribution for the non-school entities. The Commonwealth’s proportionate share of the net OPEB liability at June 30, 2018 was \$11,990 or 0.5885%. The proportionate share is calculated utilizing the employers’ one-year reported covered payroll as a percentage of the total one-year reported covered payroll. The Commonwealth is assigned 50% of non-school entities covered payroll for purposes of calculating proportionate share. The Commonwealth’s proportionate share of OPEB expense, deferred outflows of resources and deferred inflows of resources are listed in the chart below.

	<u>Premium Assistance</u>
OPEB expense	\$ 511
 Deferred outflows of resources	
Difference between projected and actual investment earnings.....	\$ 13
Contributions subsequent to measurement date.....	\$ 677
 Deferred inflows of resources	
Changes of assumptions.....	\$ 558
Changes in proportion.....	\$ 6

Employer Contributions

The contribution policy of the Premium Assistance plan is governed by applicable provisions of the Retirement Code. A portion of each employer pension contribution is set aside for the funding of the Premium Assistance. The total contribution rate for employers and governmental nonemployer contributing entities is 0.83% of the total employer pension contribution. The contribution rate for the Premium Assistance plan is set at a level necessary to establish reserves sufficient to provide Premium Assistance plan payments for all participating eligible members for the subsequent fiscal year. The Premium Assistance plan recognized \$677 of contributions during the fiscal year ended June 30, 2018.

NOTE 11 - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Pennsylvania Medical Care Availability and Reduction of Error Fund (Mcare), an agency fund, acts as a service agent to facilitate the payment of medical malpractice claims to claimants which exceed basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Mcare collects statutory healthcare provider surcharges, as a percentage of insurance premiums for basic liability coverage; in turn, the Mcare pays claimants on behalf of healthcare providers. The Mcare has assets of \$118,428 at June 30, 2018. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$971,364 at June 30, 2018. The claims will be funded exclusively through statutory surcharge assessments in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (USTIF), an agency fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The estimated actuarial liability for existing and potential future claims total \$360,682 and \$1,386,810 respectively, at June 30, 2018. There are statutory limits on the extent of the USTIF's liability to participating owners and operators; the USTIF is not obligated beyond assets held at June 30, 2018. The USTIF has assets of \$389,960 at June 30, 2018. Owners and operators will be assessed for any claims exceeding assets and no financial liability is reported for those claims.

NOTE 12 - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth collective bargaining employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF was established in 1988 through an Agreement and Declaration of Trust (Agreement). The PEBTF establishes and provides healthcare benefits for active Commonwealth employees and is the Commonwealth's third-party administrator for paying retiree healthcare benefits for the REHP and the RPSPP. The Commonwealth has, in its collective bargaining agreements with unions participating in the Agreement, obligated itself to provide certain contributions on behalf of bargaining unit employees. The Commonwealth also remits contractually established contributions on behalf of active non-union employees and other active employees covered by contracts between the Commonwealth and other unions. Nearly all active employees contribute established percentages of their salaries and wages received, constituting an 'employee share,' to finance active employee benefits. During the fiscal year ended June 30, 2018 total employer contributions for active employees amounted to approximately \$972,847; active employee contributions amounted to approximately \$107,910. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2018, for the active employees benefit program, the PEBTF reported total assets of \$638,773, total liabilities of \$1,633, total benefit obligations of \$101,803, and an excess of net assets over benefit obligations of \$535,337. During the fiscal year ended June 30, 2018 the PEBTF reported an increase in net assets over benefit obligations of \$65,113 for the active employees benefit program.

Due to timing differences in the implementation and payment of the new employer contribution effective July 1, 2011, the PEBTF recorded \$237 in contribution overpayments for the fiscal year ended June 30, 2018. It is expected that these overpayments will be offset by reductions in contribution payments as the collective bargaining agreements are adopted.

Audited financial statements for the active employee healthcare plans are available, by request, from:

Pennsylvania Employees Benefit Trust Fund
150 South 43rd Street
Harrisburg, Pennsylvania 17111-5700

NOTE 13 – TAX ABATEMENTS**Tax Abatements**

A tax abatement is an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. As of June 30, 2018, the Commonwealth of Pennsylvania provided tax abatements through the following programs listed in alphabetical order:

- The Coal Refuse Energy and Reclamation Tax Credit program is administered by the Department of Community and Economic Development (DCED) under Article XVII-J of the Tax Reform Code of 1971 to incentivize Pennsylvania electric generating facilities to use coal refuse for power generation, control acid gasses, and use ash produced to reclaim mining-affected sites. To be eligible, an electric generating facility must have been in service within the Commonwealth prior to July 1, 2016, must use qualified coal refuse to generate power, and use a qualified system to control acid gasses. Additionally, facilities commit to using at least 50% ash produced in the prior year to reclaim mining-affected sites. Eligible facilities may apply for tax credits of \$4 dollars per ton of qualified coal refuse used, up to 22.2% of the annual program cap of \$10 million. If applications exceed the annual program cap, the credits will be prorated among applicants. The tax credit must be first applied against the tax liability in the year of issuance, may be carried forward 15 years, and after the initial filing may be sold to an approved business. Tax credits are valid to be deducted from the following taxes: corporate net income, personal income, bank and trust company shares, insurance premiums, title insurance company shares tax, gross receipts, and mutual thrift institutions. For the fiscal year ending June 30, 2018, \$1.4 million in taxes were abated.
- The Education Tax Credit, previously known as the Educational Improvement Tax Credit (EITC), is administered by DCED under Article XX-B of the Public School Code of 1949 to provide an incentive for Pennsylvania businesses to make contributions to a list of pre-approved Scholarship Organizations (SO), Educational Improvement Organizations (EIO), or Pre-Kindergarten Scholarship Organizations (PKSO). For both SOs and EIOs, businesses may apply to DCED for a tax credit equal to 75% of the contribution for a one-year pledge, or 90% of the contribution for a two-year pledge, up to \$750 thousand annually. For PKSOs, businesses may apply for a tax credit equal to 100% of the first \$10 thousand, and 90% of any additional amount up to \$200 thousand. After receiving the approved application from DCED, the business must make the contribution within 60 days, and provide DCED a written acknowledgement with proof within 90 days. If proof is not received, the tax credit approval is void. For two-year applications, if the second year contribution is not made, the prior year credit is reduced to 75%. Applications are approved first come/first served. Tax credits are applied against the tax liability in the year of the contribution or the following year if a pass-through entity. Credits may not be carried forward or sold, and total credits for the program cannot exceed \$160 million annually (\$110 million for SOs, \$37.5 million for EIOs, and \$12.5 million for PKSOs). If EITC's total program credits have been met, an applicant may elect to have the application be considered for the Opportunity Scholarship Tax Credit program instead. Tax credits may be utilized against the following taxes: corporate net income, personal income, insurance premiums, bank and trust company shares, mutual thrift institutions, title insurance company shares, malt beverage, and surplus lines tax for retaliatory fees. For the fiscal year ended June 30, 2018, \$129.4 million in taxes were abated.
- The Film Production Tax Credit is administered by DCED under Article XVII-D of the Tax Reform Code of 1971, and encourages production of films, television commercials, or television shows within the Commonwealth. To be eligible, the productions must be for a national audience, and production companies must spend a minimum of 60% of their total budgets on qualified Pennsylvania expenses. The budget must be approved by DCED. Tax credits are calculated at 25% of qualified Pennsylvania expenses, with an option of an additional 5% if filming is at a qualified facility within the Commonwealth. The total tax credits for an individual project are capped at 20% of the total annual program budget of \$60 million. The taxpayer also agrees to submit monthly progress reports and an independently audited report of expenses upon completion of the project. If the agreed upon qualified film production expenses are not incurred, the taxpayer must repay the Commonwealth the amount of tax credit claimed. Tax credits may be carried forward three years, and after the initial filing may be sold to an approved business. Tax credits may be utilized against the following taxes: corporate net income, personal income, insurance premiums, bank and trust company shares, mutual thrift institutions, and title insurance company shares. For the fiscal year ended June 30, 2018, \$60.4 million in taxes were abated. Total taxes abated may exceed the annual cap of tax credits issued due to timing of redemption.

NOTE 13 - TAX ABATEMENTS (continued)

- The Keystone Innovation Zone Program (KIZ) is administered by the Ben Franklin Technology Development Authority (BFTDA) and DCED under Article XIX-F of the Tax Reform Code of 1971, and fosters entrepreneurial opportunities for young companies to grow in designated geographic areas. Each KIZ has a keystone innovation zone partnership and coordinator that develops a strategic plan for the targeted industry segments they are promoting. To be eligible for the tax credit a business must be located within a designated KIZ geographic area, must be in operation less than eight years, and must be within the specific KIZ's targeted industry sectors. Businesses must work with the KIZ coordinator prior to applying for the KIZ tax credit. Tax credits are awarded for 50% of the increase of revenues within the KIZ between the first and second year after application, up to \$100 thousand. If a business has operations outside the zone, the revenues are attributed based on property and payroll factors. If there is no payroll within the KIZ, the tax credit may be reduced. If there is no property or payroll within the KIZ, the business is ineligible. Businesses must report semi-annually through the KIZ Force reporting tool. If tax credits awarded exceed the \$15 million annual program cap, tax credits are prorated between recipients. Tax credits may be carried forward four years, and may be sold to an approved buyer after the initial year's filed taxes. Tax credits may be utilized against the following taxes: corporate net income and personal income. For the fiscal year ended June 30, 2018, \$16 million in taxes were abated. Total taxes abated may exceed the annual cap of tax credits issued due to timing of redemption.
- The Keystone Opportunity Zone Program (KOZ) is administered by DCED under Chapter 16B of PS 73 Trade and Commerce and Article XIX-D of the Tax Reform Code of 1971, and is designed to create economic development in designated zones within the Commonwealth by providing tax abatements to businesses and residents located within the zones. While zones are in effect, qualified applicants within the zone are eligible to have tax liabilities waived for corporate net income tax, personal income tax, sales and use tax, mutual thrift institutions tax, bank and trust company shares tax, and insurance premiums tax. Businesses that cease operations in a KOZ within five years of first receiving tax benefits must repay a prorated percentage of the taxes abated; 66% if within three years or 33% if within four to five years. Existing Pennsylvania businesses relocating to the zone must satisfy one of the following relocation requirements to be eligible: increase full-time employment by at least 20% in the first year of operating within the KOZ; make a capital investment of at least 10% of the business' gross revenues of the year prior to relocating to the KOZ; or enter a lease agreement for the duration of the KOZ with aggregate lease payments of at least 5% of gross revenues of the year prior to relocating to the KOZ. Additionally, qualified businesses who are in the transportation, pipeline, gas, or insurance industries are eligible to apply for a tax credit of \$1,250 for each new full-time job created. Tax credits may be applied up to 50% of their tax liability, and if tax credits exceed the annual program cap of \$1 million the tax credits will be allocated on a pro-rated basis. Insurance companies may apply the tax credits against their insurance premium tax liability. The qualified transportation, pipeline, and gas business are specifically excluded from eligibility to waive corporate net income and personal income, and instead may apply the tax credits against their corporate net income and personal income liabilities. KOZ applicants may not claim or accumulate the Tax Credit for New Jobs, the Research and Development tax credit, or the Neighborhood Assistance Program tax credit. Qualified businesses must also be fully compliant with all state and local taxes and building codes, and within their annual renewal should include reporting on the jobs and private investment created within the KOZ. For residents to be eligible for tax waiver of personal income tax they must reside 184 consecutive days in the zone during each tax year, and comply with all state and local tax laws. In conjunction with the KOZ, the Commonwealth also at times committed to providing other economic growth opportunities in the form of grants and training reimbursements. For the fiscal year ended June 30, 2018, \$92.1 million in taxes were abated.
- The Neighborhood Assistance Programs are administered by DCED under Article XIX-A of the Tax Reform Code of 1971, and provides an incentive for Pennsylvania business to contribute to approved neighborhood organizations' projects or otherwise provide qualified assistance to impoverished areas. There are five subset programs to Neighborhood Assistance Program tax credit program: the Neighborhood Assistance Program (NAP) is for contributions for projects to improve distressed communities, the Special Program Priorities (SPP) targets Commonwealth designated priority problems or projects within a distressed area, the Neighborhood Partnership Program (NPP) works holistically on multiple projects and contributions must be for five or more years, the Charitable Food Program (CFP) supports nonprofit regional food banks, and the Enterprise Zone Program (EZP) allows businesses in distressed areas to receive tax credits for investing directly in the construction costs of rehabilitating or improving buildings or land. The eligibility requirements and tax credit awards vary by subset program. In order to be eligible for the NAP, SPP, NPP and CFP tax credits, a business must provide to DCED a letter of commitment on corporate letterhead to contribute to an approved

NOTE 13 - TAX ABATEMENTS (continued)

neighborhood organization's project in one of these subset programs. Upon approval, the contribution must be made within 12 months, and the business must submit proof of contribution to DCED within 18 months to receive the tax credit certificate. The neighborhood organization must use the donation on the approved project within 15 months of the donation. Tax credits are awarded at 55% of the contribution for NAPs, 75% of the contribution for SPPs, 75-80% for Neighborhood Partnership Programs, and 55% for Charitable Food Programs. The tax credit per business is capped at \$500 thousand for contributions to three or fewer projects or \$1.25 million for four or more projects. In order to be eligible for the EZP, a business must invest in the rehabilitation, expansion, improvement, engineering, architecture or acquisition of a building or land within a designated Enterprise Zone distressed community. The business must additionally provide full-time employment opportunities with benefits at a defined family sustainable wage. The tax credits are awarded at 25% of the investment up to a \$500 thousand limit per business. The Neighborhood Assistance Programs combined annual cap is \$18 million. Tax credits must be applied against the business' tax liability, can be carried forward five years, and after the initial filing may be sold to an approved business. The tax credits may be utilized against the following taxes: corporate net income, personal income, bank and trust company shares, mutual thrift institutions, insurance premiums, and title insurance. For the fiscal year ended June 30, 2018, \$18 million in taxes were abated.

- The Neighborhood Improvement Zone Program (NIZ) is administered by a contracting authority with oversight by the Department of Revenue (DOR), under Article XIX-B of the Tax Reform Code of 1971, and is a hybrid tax incremental financing program with a primary focus for the construction of an arena and a secondary focus for economic development in the zone. Each year entities located or partially located within the zone are required to file a NIZ report, which includes the following state taxes paid during the previous calendar year: corporate net income, capital stock/foreign franchise, bank and trust company shares, sales, use & hotel occupancy, employer withholding, gross receipts, unemployment compensation, realty transfer, cigarette, vehicle rental, gross premiums, malt beverage, and liquor/wine. The total amount of state taxes certified by DOR and applicable local taxes are deposited into the NIZ fund for use by the contracting authority. The authority may utilize the funds for the payment of debt service on bonds issued for the construction of the arena, or to fund the debt service of additional eligible improvement projects within the zone. All eligible NIZ projects must be geographically located within the NIZ and be approved by the authority. Once in operation, the payment of taxes associated with the project can go toward payment of the debt service owed by the developer on the project. The NIZ zone is effective for a period equal to the payment of all debt service incurred, including bond repayment or 30 years, whichever occurs first. For the fiscal year ended June 30, 2018, \$45.6 million in taxes were abated.
- The Opportunity Scholarship Tax Credit (OSTC) is administered by DCED under Article XX-B of the Public School Code of 1949, and allows for businesses to receive tax credits for contributions to a list of pre-approved scholarship organizations. Businesses may apply to DCED for a tax credit equal to 75% of the contribution for a one-year pledge, or 90% of the contribution for a two-year pledge, up to \$750 thousand annually. After receiving the approved application from DCED, the business must make the contribution within 60 days, and provide DCED a written acknowledgement with proof within 90 days of the approved application. If proof is not received, the tax credit approval is void. Applications are approved first come/first served. Tax credits may not be sold, and total credits for the program cannot exceed \$50 million annually. If program thresholds are not met in a given year, the remaining balance will be available to the waiting list of the Education Tax Credit Program for Scholarship Organizations and Pre-Kindergarten Organizations, but not for Educational Improvement Organizations. Tax credits may be utilized against the following taxes: corporate net income, personal income, insurance premiums, bank and trust company shares, mutual thrift institutions, title insurance company shares, malt beverage, and surplus lines for retaliatory fees. For the fiscal year ended June 30, 2018, \$32.6 million in taxes were abated.
- The Resource Enhancement and Protection Tax Credit (REAP) is administered by the State Conservation Commission (SCC) under Article XVII-E of the Tax Reform Code of 1971 and provides an incentive for farmers and agricultural businesses to institute "Best Management Practices" (BMP) to protect Pennsylvania natural resources. Pennsylvania farmers or businesses must apply to the SCC with a qualified proposed or completed BMP project; and must agree to maintain the BMP for the life span of the practice as defined by the SCC. Tax credits are awarded at 50% - 75% of eligible implementation costs, dependent on the type of BMP, up to \$150 thousand per agricultural operation. The

NOTE 13 - TAX ABATEMENTS (continued)

program is first come/first served up to the annual program cap of \$10 million. The tax credit must be first applied against the tax liability in the year of issuance, may be carried forward 15 years, and after the initial filing may be sold to an approved business. If the BMP is not maintained for the entire defined life span, all tax credits must be refunded. Tax credits may be utilized against the following taxes: corporate net income, personal income, bank and trust company shares, mutual thrift institutions, insurance premiums, and title insurance company shares. For the fiscal year ended June 30, 2018, \$5.4 million in taxes were abated.

- The Tax Credit for New Jobs, formerly and more commonly known as the Job Creation Tax Credit (JCTC) is administered by the Department of Community and Economic Development (DCED) under Article XVIII-B of the Tax Reform Code of 1971, and promotes economic growth through the expansion of jobs at existing or new Pennsylvania businesses. To be eligible to receive the JCTC, the business must apply to DCED with a plan of the anticipated number of jobs to be created. At a minimum, a business must agree to create 25 or more new full-time jobs or increase employment by 20% in Pennsylvania, and once approved by DCED the business has three years after an assigned start date to create the full-time jobs. To qualify as a full-time position, the employee must earn an hourly wage of at least 150% of the federal minimum wage. Additionally, the business must demonstrate financial stability, leadership in business technology or innovation, and that the business decision to expand or locate within the Commonwealth was based in part on the JCTC opportunity. Businesses must also agree to maintain operations for five years from the start date. Although businesses do not receive the tax credit until after the jobs are created, if businesses do not maintain operations for five years all tax credits must be refunded. If a business does not create the required promised number of jobs, penalties may be assessed. The tax credit is awarded at \$1 thousand per full-time job or \$2.5 thousand if the job is filled by a veteran or unemployed individual. The JCTC is awarded first come/first served, up to the annual program cap of \$10.1 million. Additionally, a minimum of 25% of all credits must be awarded to small businesses with 100 or less employees. Tax credits can be applied up to 100% of the business' tax liability, must be claimed within five years of the tax credit certificate, and may not be sold. Tax credits may be utilized against the following taxes: corporate net income, personal income, bank and trust company shares, mutual thrift institutions, gross receipts, gross premiums, and title insurance company shares. In conjunction with the JCTC, the Commonwealth also at times committed to providing other economic growth opportunities in the form of grants, loans, and training reimbursements. For the fiscal year ended June 30, 2018, \$10.1 million in taxes were abated.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2018 the Department of Transportation (DOT) had contractual commitments of approximately \$1,344,050 for various DOT highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$5,255,268 at June 30, 2018. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Encumbrances: The Commonwealth utilizes encumbrances to account for outstanding commitments for open purchase orders and unfulfilled contracts. Amounts related to encumbrances based on outstanding purchase orders or other contracts are as follows:

General Fund	\$ 602,118
Motor License Fund	291,026
Capital Facilities Fund.....	1,107,482
Other nonmajor funds.....	<u>431,108</u>
Total.....	<u>\$2,431,734</u>

Investment Commitments: At June 30, 2018, the Treasury Commonwealth Investment Program had capital commitments of \$233,624 to fund alternative investments, of which \$9,675 was unfunded. At June 30, 2018, the **Tuition Payment Fund** had capital commitments of \$475,991 to fund alternative investments, of which \$27,062 was unfunded.

Loan and Grant Commitments: At June 30, 2018 primary government funds had approved \$4,089 in loans that had not been disbursed. Also at June 30, 2018 the **Commonwealth Financing Authority (CFA)**, a blended component unit, had approved loans and grants that had not been disbursed of \$424,775.

Operating Lease Commitments: As of June 30, 2018, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2018 were as follows:

Fiscal year ending June 30:	
2019.....	\$ 239,541
2020.....	191,251
2021.....	158,750
2022.....	141,413
2023.....	118,921
2024-28.....	420,240
2029-33.....	147,345
2034-38.....	<u>7,381</u>
Total Minimum Lease Payments.....	<u>\$ 1,424,842</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2018 amounted to \$345,674.

Child Support Payments: At June 30, 2018, the Commonwealth was contingently liable for approximately \$18,316 in payments received by a contractor to be used for child support payments.

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings, and other alleged violations of Commonwealth and Federal laws. The Commonwealth has reported accrued liabilities at June 30, 2018 with respect to torts as described in Note

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

8 for probable losses, and, separately, other general long-term obligations with respect to litigation cases in the amount of \$31,156 for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible and may impair future revenue sources. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$17,000 to \$150,000 for the **General Fund**; \$0 to \$4,000 for the **Motor License Fund**, a special revenue fund; and \$100 to \$1,000,000 of possible additional liabilities for the State Employees' Retirement System, a fiduciary fund. The range of potential liability for governmental activities is from \$0 to \$155,000. The liability for these cases has not been recorded as of June 30, 2018.

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain federal agencies, contesting various disallowances and sanctions related to federal assistance programs ranging from \$17,000 to \$155,000 at June 30, 2018. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Lottery Prizes: The **State Lottery Fund (Lottery)**, an enterprise fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2018, the amount of future payments owed to prizewinners was \$511,626. To satisfy its financial obligation to these prizewinners, the **Lottery** purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the **Lottery** is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the **Lottery** is not liable for the related annuity payments. At June 30, 2018, prizewinners had voluntarily assigned future payments of \$578,076.

Pennsylvania Turnpike Commission (PTC): The PTC, a discretely presented component unit, had \$980,241 of Special Revenue Bonds outstanding at May 31, 2018. Pursuant to Act 44 of 2007 the PG, through its **Motor License Fund**, provided security for these bonds in the event of a debt service shortfall. This guarantee extends until the retirement or defeasance of any special revenue bonds or until October 13, 2057, whichever is sooner. To date, the PTC has made all required Special Revenue Bond debt service payments. No funds have been drawn or requested from the Commonwealth's **Motor License Fund** for special revenue bond debt service during the current reporting period or any prior reporting periods. In the event that the Commonwealth's **Motor License Fund** would be required to make a special revenue bond debt service payment, a provision of the Amended Lease and Funding Agreement, executed between the PTC and the **Motor License Fund**, requires the PTC to reimburse the **Motor License Fund** for any special revenue bond debt service payments plus interest.

During the PTC's fiscal year ending May 31, 2018, total interest and principal due on the \$980,241 of special revenue bonds outstanding at May 31, 2018 will amount to \$39,235 and \$3,940, respectively. Disclosures related to the PTC's special revenue bonds payable as of May 31, 2018 are provided in Note 16 to the basic financial statements.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

Loan Guarantees: The CFA, through various economic development programs, provided loan guarantees as of June 30, 2018 as follows:

First Industries Loan Guarantees	\$ 18,680
Tax Increment Financing Guarantees	19,643
New Pennsylvania Venture Guarantees	<u>56,800</u>
Total loan guarantees	<u>\$ 95,123</u>

In the event a borrower is unable to make the required debt service payment on a guaranteed debt issuance, or a loss is incurred on the aggregate guaranteed investment portfolio, the CFA is required to make payment. The guarantees related to the New Pennsylvania Venture Guarantee Program extend throughout the life of the investment portfolio. The guarantees related to the Tax Increment Financing Guarantee and First Industries programs extend through July 1, 2032 and July 15, 2035, respectively, as of June 30, 2018.

Nonexchange Financial Guarantees: As of June 30, 2018, the Commonwealth, in accordance with Act 52 of 2013 as amended by Act 84 of 2016, has guaranteed the remaining \$6,080 of the 26-year, \$6,080 December 2015 general obligation bond issuance of the Lancaster City Revitalization and Improvement Zone (CRIZ) Authority, a legally separate authority operating as a component unit of the City of Lancaster. The bonds mature in varying annual installments, plus interest, beginning December 2017 through December 2041. The Commonwealth has also guaranteed the remaining \$1,800 of the five-year, \$4,000 note payable of the Lancaster CRIZ Authority, payable to the Lancaster County Convention Center Authority. The note matures in 2020, with varying annual installments, carrying a 0% interest rate. In the event that the Lancaster CRIZ Authority is unable to make payment on these obligations, the Commonwealth will be required to make that payment on behalf of the Lancaster CRIZ Authority under the borrowing provision within the CRIZ law.

As of June 30, 2018, the Commonwealth, in accordance with Act 52 of 2013 as amended by Act 84 of 2016, has guaranteed the remaining \$5,994 of the 25-year, \$6,000 August 2017 conduit debt loan entered into by the Bethlehem Revitalization & Improvement Authority (BRIA), a legally separate reporting entity. The loan matures in 2044, with a variable interest rates of at least 4.375% during the loan term. In the event that the BRIA is unable to make payment on this obligation, the Commonwealth will be required to make that payment on behalf of the BRIA under the borrowing provision within the CRIZ law.

The CFA has recognized a liability for nonexchange financial guarantees at June 30, 2018 of \$17,654 and has made cumulative payments of \$9,800 for said amount. The CFA expects to recover a portion of these amounts in future periods; however, at this time the amount of any future recoveries is undeterminable.

Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2018</u>
\$ 16,814	\$ 1,693	\$ 853	\$ 17,654

Primary Government Commitment for the Pennsylvania Convention Center Authority (PCCA): According to a contractual arrangement (Operating Agreement) among the Commonwealth, the City of Philadelphia, and the PCCA, a discretely presented component unit, the Commonwealth is required to make payments to the PCCA to finance operating deficits. Such payments are to be primarily financed using the Gaming Fund. The Gaming Fund is used to finance a variety of programs and/or projects and the Gaming Fund itself may be unable to finance all of the PCCA operating deficits during the term of the Operating Agreement, which expires in 2039. In that event, primary government payments to the PCCA based on the Operating Agreement must be financed using funds separate from the Gaming Fund; such amounts are subject to annual appropriation by the General Assembly.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

Primary Government Commitment for the CFA: According to a contractual arrangement (Service Agreement) among the Department of Community and Economic Development, the Office of the Budget and the CFA, the primary government is required to request sufficient annual appropriations from the General Assembly (to be funded by the General Fund and the Gaming Fund) to finance the service fee established in the Service Agreement. The service fee is the only significant source of funds the CFA has to pay its debt service obligations. The amount of such service fee is to be requested by October 1, each year, for the succeeding fiscal year budget effective July 1 of the following year. During the term of the Service Agreement, there can be no assurance that 1) the General Assembly will annually appropriate sufficient amounts to fund the annual service fee, or 2) funds will be available to finance such annual appropriations. During the fiscal year ended June 30, 2018 the primary government paid a service fee in the amount of \$186,052. Disclosures related to the CFA's \$4,087,710 of revenue bonds payable are provided in Note 6 to the basic financial statements.

Primary Government Commitment for the Pittsburgh Penguins Arena: A lease agreement between the Commonwealth and the Sports and Exhibition Authority of Pittsburgh and Allegheny County (SEA) created a 'subject to appropriation' obligation of the Commonwealth. In October 2007, the SEA issued \$313,300 of Commonwealth Lease Revenue Bonds (the Arena Bonds) to finance a multi-purpose arena to serve as home of the Pittsburgh Penguins (the Penguins), a hockey team in the National Hockey League. The Arena Bonds are not debt of the Commonwealth but are limited obligations of the SEA payable solely from the special revenues pledged. These special revenues include annually (1) \$4,100 from a lease with the Penguins, (2) not less than \$7,500 from the operator of a casino located in the City of Pittsburgh, and (3) \$7,500 from the Commonwealth's Gaming and Economic Development and Tourism Fund. While the special revenues are currently projected to be adequate to pay all debt service on the Arena Bonds, to the extent such revenues in any year are inadequate to cover debt service, the Commonwealth is obligated under the Arena Lease to fund such deficiency, subject in all cases to appropriation by the General Assembly. The maximum annual amount payable by the Commonwealth under the Arena Lease is \$19,100.

In April 2010, the SEA issued \$17,360 in additional Commonwealth Lease Revenue Bonds (the Supplemental Arena Bonds). The Supplemental Arena Bonds do not constitute debt of the Commonwealth but are limited obligations of the SEA payable solely from the special revenues pledged therefor. The Commonwealth is obligated under the Arena Lease to fund any deficiency in special revenues necessary to pay debt service; subject in all cases to appropriation by the General Assembly. For fiscal year ended June 30, 2018 the actual amount appropriated to support the SEA debt service was \$4,768.

NOTE 15 – NET POSITION AND FUND BALANCE

Governmental Activities and Business-Type Activities Net Position: Total net position is the difference between total assets and total deferred outflows of resources less total liabilities and total deferred inflows of resources as reported on the statement of net position. Total net position is reported in three distinct components: Net investment in capital assets; restricted net position; and unrestricted net position.

Net investment in capital assets represents total capital assets less accumulated depreciation and the outstanding liability (excluding unspent proceeds) for debt specifically related to the construction and acquisition of the capital assets. At June 30, 2018, governmental and business-type activities, respectively, reported net investment in capital assets of \$32,975,535 and \$600,833.

Restricted net position is reported based on constraints imposed by either: 1) creditors, grantors, contributors, or laws or regulations of the federal or other governments; or 2) Commonwealth enabling legislation. At June 30, 2018, governmental and business-type activities, respectively, reported \$1,973,569 and \$3,662,189 of restricted net position. Net position restricted for other purposes of \$133,877 for business-type activities at June 30, 2018 include amounts for a range of dissimilar statutory purposes.

Unrestricted net position represents total net position less the amounts of net investment in capital assets and restricted net position. At June 30, 2018, governmental and business-type activities, respectively, reported unrestricted net position deficits of \$42,892,246 and \$5,038,475.

Governmental Funds Fund Balance: Reported fund balance within individual governmental funds is categorized between nonspendable and spendable categories. At June 30, 2018 nonspendable fund balance is only reported for amounts which are not in spendable form; no nonspendable fund balance is reported based on either legal or contractual requirements to be maintained intact. Within the spendable category, fund balance is further categorized among: restricted, committed, assigned and, unassigned categories. For the **General Fund**, balances may be reported within any of the four spendable categories. However, for all other funds, all balances must be reported within the restricted, committed, or assigned categories, with the exception of a fund balance deficit, which then must be reported in the unassigned category. At June 30, 2018, spendable governmental funds fund balance is categorized among all categories except that no assigned fund balance is reported among any governmental fund for which reporting assigned fund balance would cause reporting a deficit unassigned fund balance. The following chart provides detail about reported nonspendable fund balance and fund balance restrictions and commitments at June 30, 2018:

NOTE 15 – NET POSITION AND FUND BALANCE (continued)

	General Fund	Motor License Fund	Nonmajor Funds	Total
Nonspendable:				
Not in spendable form:				
Advances to other funds.....	\$ 7,475	\$ -	\$ -	\$ 7,475
Long-term loans receivable.....	41,174	-	-	41,174
Due from component unit.....	152,851	-	-	152,851
Total nonspendable.....	201,500	-	-	201,500
Restricted for:				
General government operations.....	1,378	-	61,462	62,840
Health-related programs.....	-	-	16,223	16,223
Transportation.....	-	1,003,959	940,248	1,944,207
Unemployment/worker's compensation.....	-	-	1,021,970	1,021,970
Environmental and conservation programs.	-	-	656,240	656,240
Economic development.....	-	-	16,130	16,130
Gaming/horse racing regulation.....	-	-	537,840	537,840
Emergency support.....	-	-	97,655	97,655
Total restricted.....	1,378	1,003,959	3,347,768	4,353,105
Committed for:				
General government operations.....	2,163,937	-	-	2,163,937
Health-related programs.....	-	-	21,265	21,265
Transportation.....	-	-	47,476	47,476
Capital projects.....	-	-	1,612,243	1,612,243
Debt service.....	-	-	53,594	53,594
Elderly programs.....	13,891	-	-	13,891
Environmental and conservation programs.	118,501	-	45,721	164,222
Economic development.....	118,381	-	-	118,381
Higher education.....	322,472	-	-	322,472
Total committed.....	2,737,182	-	1,780,299	4,517,481
Unassigned:				
Deficit.....	(2,126,350)	-	(9,481)	(2,135,831)
Total fund balances.....	\$ 813,710	\$ 1,003,959	\$ 5,118,586	\$ 6,936,255

A portion of the nonspendable fund balance reported by the **General Fund**, \$7,475, is applicable to advances to other funds at June 30, 2018 as follows: \$2,300 to the **State Workers' Insurance Fund**, an enterprise fund; \$2,175 to the **Motor License Fund** and \$3,000 to the Medical Marijuana Program Fund, both special revenue funds, respectively.

Governmental Funds Fund Balance Deficit: The Uninsured Employers' Guaranty Fund, a special revenue fund, reported a fund balance deficit of \$9,481 at June 30, 2018.

Proprietary Funds Net Position: Nonmajor enterprise funds reported total restricted net position for "other purposes" of \$133,877 at June 30, 2018 for the following programs: mine subsidence insurance, \$124,559; vocational rehabilitation, \$2,027; maintain historical properties, \$2,240; restaurant maintenance in state facilities, \$728; and local government loans, \$4,323.

NOTE 15 – NET POSITION AND FUND BALANCE (continued)

Proprietary Funds Unrestricted Net Position Deficits: In addition to unrestricted net position deficits reported in four of the six major enterprise funds (**State Workers' Insurance Fund, State Lottery Fund, State Stores Fund** and the **Commonwealth Financing Authority**, a blended component unit), one nonmajor enterprise fund and the two internal service funds reported an unrestricted net position deficit in the statement of net position-proprietary funds at June 30, 2018. The Rehabilitation Center Fund, an enterprise fund, reported an unrestricted net position deficit of \$65,385 at June 30, 2018.

The Manufacturing Fund and the Purchasing Fund, both internal service funds, reported unrestricted net position deficits of \$28,441 and \$49,515, respectively, at June 30, 2018. With the Commonwealth's implementation of GASB Statements No. 68 and No. 75, these funds have reported pension and other postemployment benefit liabilities, causing these deficits.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS

Discretely Presented Component Units (DPCUs) as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, paragraph 20, and amended by GASB 61, paragraph 4b, are legally separate organizations for which the elected officials of the primary government (PG) are financially accountable. In addition, DPCUs can be other organizations of which the nature and significance of their relationship with the PG is such that exclusion of these organizations from the PG’s financial statements would be misleading. DPCUs are established for the benefit of the Commonwealth’s citizenry for a variety of purposes such as economic development, financing and public transportation. The following DPCU disclosures include only information that is deemed essential to the fair presentation of the Commonwealth’s financial statements.

Restatements

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Infrastructure Investment Authority (PENNVEST) and the State System of Higher Education (SSHE) adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB) for the fiscal year ended June 30, 2018. Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The SSHE also adopted GASB Statement No. 81, Irrevocable Split-Interest Agreements for the fiscal year ended June 30, 2018. Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The following tables reflect the aggregate restatement impact on the beginning net position:

Statement of Net Position

	<u>PHFA</u>	<u>PHEAA</u>	<u>PENNVEST</u>	<u>SSHE</u>
Net position, as previously reported, at June 30, 2017.....	\$ 779,525	\$ 687,032	\$ 3,656,019	\$ 201,085
Cumulative effect of adopting GASB 75.....	(49,724)	(382,668)	(7,041)	(1,280,301)
Cumulative effect of adopting GASB 81.....	-	-	-	13,497
Net position, as restated, at July 1, 2017.....	\$ 729,801	\$ 304,364	\$ 3,648,978	\$ (1,065,719)

Please refer to the individual component unit separately audited and issued financial statements for additional restatement detail.

Deposits, Investments and Financial Instruments with Off-Balance Sheet Risk

DPCU organizations typically control receipt and disbursement of their own deposits, often through a trustee. Enabling legislation provides varying authority for investments; several DPCU organizations participate in the Commonwealth Investment Program (CIP).

Fair Value of Investments

The following table categorizes the investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Component Units of the SSHE reported investments that were valued at net asset value (NAV).

A more detailed discussion of the application of the fair value hierarchy as it applies to each component unit is available from the component units separately issued financial statements.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Investment Type/Fair Value	PTC	PHFA	PHEAA	PENNVEST	SSHE
Asset backed securities					
Level 2.....	\$ -	\$ -	\$ -	\$ -	\$ 140,816
Bond mutual funds					
Level 1.....	-	-	-	-	2,434
NAV.....	-	-	-	-	12,690
Commercial paper					
Level 2.....	-	-	38,993	-	147,471
Common stock					
Level 1.....	-	-	-	-	2,723
Commonwealth investment pool					
Level 2.....	-	-	-	1,443,216	-
NAV.....	-	-	456,463	-	-
Corporate obligations					
Level 2.....	406,115	-	-	-	257,991
Debt securities					
Level 2.....	-	-	-	-	394
Equity balanced mutual funds					
Level 1.....	-	-	-	-	13,558
Level 2.....	-	-	-	-	5,853
Level 3.....	-	-	-	-	1,665
NAV.....	-	-	-	-	22,997
Federal agency discount notes					
Level 2.....	-	-	24,341	-	-
GNMA mortgages					
Level 2.....	1,627	-	-	-	-
Investment derivatives					
Level 2.....	11,572	-	-	-	-
Money market mutual funds					
Level 1.....	-	-	139,866	-	-
Level 2.....	-	-	54,788	-	62,647
Mortgage-backed securities					
Level 2.....	-	92,834	-	-	158,433
Municipal bonds					
Level 2.....	91,274	-	-	-	-
U.S. Government agency obligations					
Level 2.....	115,528	178,907	-	-	432,091
U.S. Treasury obligations					
Level 1.....	361,692	-	-	-	-
Subtotal Level 1.....	361,692	-	139,866	-	18,715
Subtotal Level 2.....	626,116	271,741	118,122	1,443,216	1,205,696
Subtotal Level 3.....	-	-	-	-	1,665
Subtotal NAV.....	-	-	456,463	-	35,687
Total.....	<u>\$ 987,808</u>	<u>\$ 271,741</u>	<u>\$ 714,451</u>	<u>\$ 1,443,216</u>	<u>\$ 1,261,763</u>

Note: Does not include PENNVEST securities lending collateral of \$8,936.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**Deposit Risks**

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the DPCU would not be able to recover the value of the deposits.

At May 31, 2018, \$18,200 of the Pennsylvania Turnpike Commission's (PTC) demand deposits were exposed to custodial credit risk, as they were uninsured and collateralized with securities held by an agent of the pledging financial institution but are not in the PTC's name.

The Pennsylvania Housing Finance Agency (PHFA) held \$251,049 of cash deposits that were uninsured but collateralized in accordance with the Commonwealth of Pennsylvania Act 72 of 1971, as amended, by securities held by the pledging financial institution, its trust department or agent, but not in the PHFA's name.

The Pennsylvania Higher Education Assistance Agency (PHEAA) held \$14,500 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured.

The majority of the Pennsylvania Infrastructure Investment Authority (PENNVEST) deposits are held in the CIP. Deposits of the CIP must be held in insured depositories and must be fully collateralized.

The Pennsylvania State System of Higher Education (SSHE) held \$38,080 of uninsured and uncollateralized deposits of which \$36,916 is covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended.

Investment Risks

Risk Management Policies: DPCU policies for certain risks are established by governing boards and bond indentures. Credit quality risk is addressed by establishing minimum nationally recognized statistical rating organization (NRSRO) ratings for allowable investment purchases. Concentration of credit risk is also avoided by limiting the concentration of investments in any one issuer. Some organizations have policies in place that prohibit a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is typically avoided through registration.

The PTC investment policies established by its bond indentures and the PTC management define guidelines and operational factors governing the investment of financial assets. Management's policy generally has the same restrictions regarding permitted investments as the indentures. Allowable investments include obligations of, or obligations guaranteed by, the United States of America, its agencies, and its instrumentalities; certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of AA-; investments in bonds or notes issued by any state or municipality which are rated by S&P, Moody's and Fitch in one of their two highest rating categories; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America. All investment ratings shall be based on security ratings at the time of purchase. The portfolio's average credit quality should be rated Aa3/AA- or better by Moody's/S&P.

Commonwealth statutes and contractual provisions contained in the bond trust indentures govern the investment policies of the PHFA. The Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 and bond indentures provide the authority to invest all PHFA funds. In compliance with the Act and bond indentures, it is the policy of the PHFA to invest in securities that provide suitable returns, preserve principal, meet liquidity needs and to further the mission of the PHFA. The PHFA mitigates its credit risk by limiting investments to those permitted in its deposit and investment policies, diversifying the investment portfolio and prequalifying firms with which PHFA administers its investment activities.

The PHEAA Board of Directors authorizes the investment guidelines and PHEAA management governs the investments by using the "prudent person" rule. Generally, the PHEAA's investments are limited to U.S. Government securities, U.S.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Government agency securities, federal instrumentalities sponsored by U.S. agencies, high-grade commercial paper, repurchase agreements collateralized by U.S. Treasury obligations, certificates of deposit, banker’s acceptances eligible for purchase by the Federal Reserve System, and other investments approved by the Board of Directors.

The trust indenture and the Commonwealth Fiscal Code, as amended, authorizes PENNVEST to invest in obligations of the U.S. government and government-sponsored agencies and instrumentalities; certificates of deposit, fully insured or collateralized; certain commercial paper and repurchase agreements, highly rated bank promissory notes or investment of funds or trusts; and “prudent person” investments as determined by PENNVEST’s depository.

The SSHE investment policy is established by board policy and authorizes SSHE to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker’s acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations, asset-backed securities, and internal loan funds.

Investments by Type

The investment types and related amounts for certain DPCUs at June 30, 2018 (May 31, 2018 for the PTC) are as follows:

<u>Investment Type</u>	<u>PTC</u>	<u>PHFA</u>	<u>PHEAA</u>	<u>PENNVEST</u>	<u>SSHE</u>
Asset-backed securities.....	\$ -	\$ -	\$ -	\$ -	\$ 140,816
Bond mutual funds.....	-	-	-	-	15,124
Commercial paper.....	-	-	38,993	-	147,471
Common stock.....	-	-	-	-	2,723
Corporate obligations.....	406,115	-	-	-	257,991
Debt securities.....	-	-	-	-	394
Derivatives.....	11,572	-	-	-	-
Equity/balanced mutual funds.....	-	-	-	-	44,073
Federal agency discount notes.....	-	-	24,341	-	-
GNMA mortgages.....	1,627	-	-	-	-
Money market mutual funds.....	-	-	194,654	-	62,647
Mortgage backed securities.....	-	92,834	-	-	158,433
Municipal bonds.....	91,274	-	-	-	-
Securities lending collateral.....	-	-	-	8,936	-
Commonwealth Investment Program.....	-	-	456,463	1,443,216	-
U.S. Government and agency obligations.....	115,528	178,907	-	-	432,091
U.S. Treasury obligations.....	<u>361,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments.....	987,808	271,741	714,451	1,452,152	1,261,763
Certificates of deposit.....	-	-	-	-	14
Total investments and certificates of deposit.....	<u>\$ 987,808</u>	<u>\$ 271,741</u>	<u>\$ 714,451</u>	<u>\$ 1,452,152</u>	<u>\$ 1,261,777</u>

Note: Total investments by type does not include \$522,949 of investments reported by component units of the SSHE.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the organizations’ investment in a single issuer.

The PTC’s investment policy defines permitted investments along with the following concentration limitations. Investments in any single federal agency, not carrying the full faith and credit of the U.S. Government, are limited to 35% of the portfolio. Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio and combined exposure

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

to commercial paper, corporate bonds, and asset-backed securities, in aggregate, is limited to 35% of the total portfolio. Investments in any single issuer, excluding U.S. Treasury and federal agencies, are limited to 5% of the portfolio.

The PHFA policy indicates that the proportion of investments in government securities shall not exceed 70% of the portfolio and the proration of investments in certificates of deposit shall not exceed 30% of the portfolio. As of June 30, 2018, concentrations in government securities, which represented 100% of the portfolio, exceed the policy. Departure from the policy was approved by the Executive Director, as permitted by PHFA Investment Policy and Guidelines. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

The PHEAA investment policy does not contain requirements that limit the amount that can be invested in any one issuer. As of June 30, 2018, the PHEAA had no investments in a single issuer that were 5% or more of their total cash equivalents and investments.

The PENNVEST participates in the CIP managed by the Commonwealth. The Commonwealth places a 10% limit on the concentration of investments in any one fixed income issuer within the CIP. This limitation excludes government-sponsored enterprises, direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Commonwealth also places a 5% limit on the concentration of investments in one equity issuer within the CIP.

The SSHE investment policy contains the following limitations: U.S. Government securities together with repurchase agreements must comprise at least 20% of market value of the fund. Commercial paper investments must not exceed 20% of the market value of the fund. Municipal bonds must carry a long-term debt rating of A or better and may not exceed 20% of the market value of the fund. Corporate bonds may not exceed 20% of the market value of the fund; 15% must carry a long-term debt rating of A or better while 5% may be rated Baa2 or better. Collateralized mortgage obligations must be rated Aaa and guaranteed by the U.S. Government and may not exceed 20% of the market value of the fund. Asset-backed securities must be Aaa rated and the total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer. Investment fund loans may not exceed 20% of the market value of the fund and the loan terms may not exceed five years.

The following concentration existed as of June 30, 2018:

<u>Issuer Name</u>	<u>PHFA</u>
Government National Mortgage Association.....	\$ 82,401
Tennessee Valley Authority.....	68,875
Federal Farm Credit Bank.....	46,943
Federal Home Loan Bank.....	39,537
	<u>\$ 237,756</u>

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Credit Risk: The following table discloses aggregate fair value, by Moody’s or Standard and Poor’s credit quality rating category, at June 30, 2018 (May 31, 2018 for the PTC):

	PTC	PHFA	PHEAA	PENNVEST	SSHE
Moody's Investors Service					
Aaa.....	\$ -	\$ 110,331	\$ -	\$ -	\$ 908,518
Aa.....	3,098	-	-	-	47,750
A.....	342	-	-	-	184,161
Baa.....	8,132	-	-	-	59,336
Moody's Investors Service subtotal.....	11,572	110,331	-	-	1,199,765
Standard and Poor's					
AAA.....	77,677	-	194,654	-	-
AA.....	451,689	-	-	-	-
A.....	83,266	-	38,993	-	-
Below A.....	285	-	-	-	-
Standard and Poor's subtotal.....	612,917	-	233,647	-	-
Rated Subtotal.....	624,489	110,331	233,647	-	1,199,765
Unrated					
Bond mutual funds.....	-	-	-	-	15,124
Federal agency discount notes.....	-	-	24,341	-	-
Mortgage backed securities.....	-	82,401	-	-	-
Commonwealth Investment Program.....	-	-	456,463	1,443,216	-
U.S. Government agency obligations.....	1,627	79,009	-	-	78
U.S. Treasury obligations.....	361,692	-	-	-	-
Unrated subtotal.....	363,319	161,410	480,804	1,443,216	15,202
Total Fixed income investments.....	987,808	271,741	714,451	1,443,216	1,214,967
Variable income investments					
Equity/balanced mutual funds.....	-	-	-	-	44,073
Common stock.....	-	-	-	-	2,723
Variable income investments subtotal.....	-	-	-	-	46,796
Total investments.....	\$ 987,808	\$ 271,741	\$ 714,451	\$ 1,443,216	\$ 1,261,763

Note: Total investments do not include \$522,949 reported by component units of the SSHE or PENNVEST securities lending collateral of \$8,936.

U.S. Government agency obligations include all securities issued by the U.S. Treasury, U.S. Government agencies, and U.S. Government Sponsored Enterprises. These include securities that are both explicitly and implicitly guaranteed by the full faith and credit of the U.S. Government. Many of these securities are not usually rated by a NRSRO and have an implied rating of Aaa/AAA.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Interest Rate Risk: Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the PTC at May 31, 2018 and the SSHE at June 30, 2018:

Investment Type	PTC		SSHE		
	Amount	Option-Adjusted Duration	Amount	Option-Adjusted Duration	Securities with no Duration
Asset backed securities.....	\$ -	-	\$ 140,816	0.62	\$ -
Bond mutual funds.....	-	-	15,124	5.10	-
Certificates of deposit.....	-	-	-	-	14
Commercial paper.....	-	-	147,471	0.09	-
Corporate obligations.....	406,115	1.32	257,265	1.52	726
Debt securities.....	-	-	394	3.56	-
GNMA mortgages.....	1,627	3.89	-	-	-
Money market mutual funds.....	-	-	5,158	1.41	57,489
Mortgage-backed securities.....	-	-	158,433	2.23	-
Municipal bonds.....	91,274	1.72	-	-	-
U.S. Government agency obligations.....	115,528	1.52	432,091	1.31	-
U.S. Treasury obligations.....	361,692	2.86	-	-	-
Total.....	\$ 976,236		\$ 1,156,752		\$ 58,229

The PHFA and PHEAA do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2018:

Investment Type	PHFA			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Mortgage-backed securities.....	\$ -	\$ 10,302	\$ 82,532	\$ 92,834
U.S. Government agency obligations...	1,824	108,208	68,875	178,907
Total.....	\$ 1,824	\$ 118,510	\$ 151,407	\$ 271,741

Investment Type	PHEAA			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Commercial paper.....	\$ 38,993	\$ -	\$ -	\$ 38,993
Money market mutual funds.....	194,654	-	-	194,654
Commonwealth Investment Program..	456,463	-	-	456,463
Federal agency discount notes.....	24,341	-	-	24,341
Total.....	\$ 714,451	\$ -	\$ -	\$ 714,451

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Derivatives

As of May 31, 2018, the PTC in its separately-issued financial statements reported noncurrent hedging derivative instrument liabilities of \$66,430 which were offset by reported deferred outflow of resources of \$71,003 and a deferred inflow of resources of \$4,573. Changes in the net fair value of the hedging derivative instruments during the fiscal year ended May 31, 2018 (\$37,695) were deferred.

As of June 30, 2018, the PHFA, in its separately-issued financial statements, reported a noncurrent hedging derivative instrument liability of \$7,209. Changes in the fair value of the hedging derivatives of \$3,890 were deferred.

Further information regarding the nature and notional value of the hedging and investment derivative instruments of the PTC (as of May 31, 2018) and the PHFA (as of June 30, 2018) are available within their separately audited and issued financial statements.

Loans Receivable

Loans receivable at June 30, 2018 consisted of the following:

	PHFA	PHEAA	PENNVEST
Mortgage loans.....	\$ 3,481,071	\$ -	\$ -
Student loans.....	-	4,581,379	-
Drinking water, storm water and sewer system loans.....	-	-	2,579,848
Subtotal.....	3,481,071	4,581,379	2,579,848
Less: allowance for uncollectible amounts.....	168,985	6,131	44,980
Loans receivable, net.....	\$ 3,312,086	\$ 4,575,248	\$ 2,534,868

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Capital Assets

A summary of capital assets by category at May 31, 2018 for PTC and June 30, 2018 for SSHE is as follows:

	Balance May 31, 2017	Increases	Decreases	Balance May 31, 2018
PTC				
Non-depreciable capital assets:				
Land and intangibles.....	\$ 359,210	\$ 21,627	\$ -	\$ 380,837
Construction in progress.....	1,356,951	612,449	451,708	1,517,692
Subtotal.....	1,716,161	634,076	451,708	1,898,529
Depreciable capital assets:				
Buildings.....	978,186	2,558	-	980,744
Improvements other than buildings.....	121,137	3,954	131	124,960
Equipment.....	638,300	17,476	34,346	621,430
Infrastructure.....	8,380,745	461,588	32,840	8,809,493
Subtotal.....	10,118,368	485,576	67,317	10,536,627
Accumulated depreciation:				
Buildings.....	399,831	22,722	-	422,553
Improvements other than buildings.....	82,984	4,062	130	86,916
Equipment.....	513,449	34,794	33,918	514,325
Infrastructure.....	5,109,383	317,823	32,840	5,394,366
Total accumulated depreciation.....	6,105,647	379,401	66,888	6,418,160
Total capital assets being depreciated, net....	4,012,721	106,175	429	4,118,467
Total capital assets.....	\$ 5,728,882	\$ 740,251	\$ 452,137	\$ 6,016,996
	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
SSHE				
Non-depreciable capital assets:				
Land and intangibles.....	\$ 32,360	\$ 153	\$ -	\$ 32,513
Construction in progress.....	183,303	91,004	168,125	106,182
Subtotal.....	215,663	91,157	168,125	138,695
Depreciable capital assets:				
Buildings.....	2,432,715	185,340	-	2,618,055
Improvements other than buildings.....	298,197	9,790	-	307,987
Equipment.....	487,973	20,487	5,230	503,230
Library books.....	80,734	663	1,895	79,502
Subtotal.....	3,299,619	216,280	7,125	3,508,774
Accumulated depreciation:				
Buildings.....	996,044	95,205	12,274	1,078,975
Improvements other than buildings.....	149,712	10,904	2,047	158,569
Equipment.....	395,696	28,775	9,085	415,386
Library books.....	74,448	1,538	1,895	74,091
Total accumulated depreciation.....	1,615,900	136,422	25,301	1,727,021
Total capital assets being depreciated, net....	1,683,719	79,858	(18,176)	1,781,753
Total capital assets.....	\$ 1,899,382	\$ 171,015	\$ 149,949	\$ 1,920,448

Note: Capital assets do not include \$1,063,246 and \$1,069,766 reported by the component units of the SSHE as of June 30, 2018 and 2017, respectively.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Service Concession Arrangements

There are 17 service plazas along the Turnpike System providing gasoline and diesel fuel, other automotive supplies and services, and restaurant services. The PTC has entered into long term service plaza redevelopment agreements with HMShost Restaurants, LLC and Sunoco Retail LLC to design, reconstruct, finance, operate and maintain all of the service plazas. During fiscal year 2018, the agreement with Sunoco Retail LLC was assigned to 7-Eleven, Inc. All terms of the contract remained the same. The PTC has no responsibility for maintaining the service plazas under the agreements. The PTC maintains the ability to approve and/or modify the services that the operators can provide and the rates that can be charged. The service plaza operators are compensated by the users of the services and share a portion of the revenue with the PTC as rental payments. Upon completion of construction, the reconstructed assets are recognized by the PTC. The current contracts with HMShost Restaurants, LLC and 7-Eleven, Inc. expire on August 25, 2036 and January 31, 2022, respectively. 7-Eleven Inc.’s lease may be extended for three additional five-year periods. The first extension shall be at the discretion of 7-Eleven Inc., and the second and third extensions shall be mutually agreed to by both parties. As of May 31, 2018, the PTC had capitalized \$125,400 in capital assets representing all 17 service plazas that had fully completed construction and recorded deferred inflows of resources of \$91,500 related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2018 and in accordance with GASB Statement No. 60, the PTC recognized a receivable and deferred inflow of resources in the amount of \$30,200 for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction. Since the final service plaza was completed at the end of fiscal year 2018, guaranteed minimum rental payment requirements will begin in fiscal year 2019.

Student loan auction rate security bonds payable, notes payable and other financing obligations

During the fiscal year ended June 30, 2018, PENNVEST issued short term obligations to finance the issuance of loans to program participants. These obligations are issued in the form of commercial paper, and bear interest, which is due upon maturity. During the fiscal year ended June 30, 2018, PENNVEST issued short term obligations in the amount of \$40,366. Interest rates on these instruments ranged from .85% to 1.75 % with no maturity being greater than 120 days. As of June 30, 2018, \$50,371 in obligations remained outstanding. A schedule of changes in the short-term obligations follows:

	Balance			Balance
	July 1, 2017	Additions	Reductions	June 30, 2018
Notes Payable.....	\$ 10,005	40,366	-	\$ 50,371

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

The PHEAA has reported \$11,100 of auction rate security bonds payable, \$4,337,679 of notes payable (consisting of student loan financings of \$485,986 and student loan floating rate notes of \$3,851,693), and \$25,608 of other obligations (consisting of capital acquisition refunding bonds of \$19,328 and term financings of \$6,280) at June 30, 2018 as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Bonds payable:				
Student loan auction rate security bonds due 2042, at interest rate of 2.55 % as of June 30, 2018 and a weighted-average interest rate of 2.29 % as of June 30, 2017.....	\$ 173,150	\$ -	\$ (162,050)	\$ 11,100
Notes payable:				
Student loan floating rate notes, due 2028-2065 at weighted average rates of 2.89 % as of June 30, 2018 and 1.95 % as of June 30, 2017.....	4,599,943	-	(741,341)	3,858,602
Less: discount on student loan floating rate notes.....	(10,296)	3,387	-	(6,909)
Subtotal.....	4,589,647	3,387	(741,341)	3,851,693
Student loan financings, due on demand at an interest rate of 2.83 % as of June 30, 2018 and 1.73 % as of June 30, 2017	200,000	40,000	-	240,000
Student loan financings warehouse facilities due 2019 at an interest rate of 3.23 % as of June 30, 2018	-	421,932	(175,946)	245,986
Total notes payable.....	\$ 4,789,647	\$ 465,319	\$ (917,287)	\$ 4,337,679
Capital acquisition refunding bonds, Series of 2012, due 2018-2022, at weighted-average rates of 4.15 % as of June 30, 2018 and June 30, 2017.....	\$ 22,300	\$ -	\$ (4,055)	\$ 18,245
Term financings, due 2029, at 0 % interest as of June 30, 2018 and 2017.....	6,280	-	-	6,280
Subtotal.....	28,580	-	(4,055)	24,525
Plus: unamortized premium.....	1,574	-	(491)	1,083
Total capital and other financing obligations	\$ 30,154	\$ -	\$ (4,546)	\$ 25,608

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan financings. As of June 30, 2018, \$4,600,000 of student loan principal and related interest receivable and \$146,000 of cash equivalents collateralized the \$4,400,000 of student loan financings.

The student loan financings and other financings are non-recourse obligations to the PHEAA’s unrestricted net position and to the Commonwealth, except for the \$240,000 of student loan financings and \$18,200 of capital acquisition refunding bonds, Series of 2012, which are borrowings from the Commonwealth’s Treasury Department.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

The PHEAA reported debt service requirements subsequent to June 30, 2018, based upon stated maturities for student loan bonds and estimated interest payments for variable-rate debt after considering terms renegotiated after June 30, 2018 are as follows:

<u>Year of maturity</u>	<u>Student Loan Bonds and Notes</u>		<u>Other Financing Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019.....	\$ 240,000	\$ 120,432	\$ 4,230	\$ 661
2020.....	245,986	111,932	4,415	482
2021.....	-	111,932	4,595	295
2022.....	-	111,932	4,795	100
2023.....	-	111,932	210	4
2024-28.....	38,595	559,087	-	-
2029-33.....	138,211	539,839	6,280	-
2034-38.....	1,253,571	502,737	-	-
2039-43.....	1,570,152	290,155	-	-
2044-48.....	44,850	129,306	-	-
2049-53.....	-	126,555	-	-
2054-58.....	155,820	122,022	-	-
2059-63.....	-	105,977	-	-
2064-68.....	668,503	48,791	-	-
Total.....	\$ 4,355,688	\$ 2,992,629	\$ 24,525	\$ 1,542

Reported as:

Total principal owed on student loan

auction rate security bonds payable.....	\$ 11,100	\$ -
Notes payable - current.....	240,000	-
Notes payable - non-current.....	3,851,693	-
Discount on student loan floating rate notes.....	6,909	-
Other financing obligations, current.....	-	4,230
Other financing obligations, non-current.....	245,986	21,378
Unamortized premium.....	-	(1,083)
Total principal	\$ 4,355,688	\$ 24,525

The PHEAA reported \$4,400,000 of its total \$4,600,000 of student loan bonds, notes, and financings as variable-rate debt, of which, interest rates on \$11,100 reset based upon auctions every 28 days, \$4,100,000 is indexed to the one-month or three-month LIBOR (London interbank offered rate). PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA, payable only from related pledged assets.

The PHEAA reported current notes payable of \$240,000 at June 30, 2018. Also, the PHEAA reported non-current notes payable of \$3,851,693 at June 30, 2018 and Component Unit (CU) organizations of the SSHE reported non-current notes payable of \$318,474.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Long-Term Obligations

Significant revenue bond obligations of the PTC (as of May 31, 2018) and the PHFA (as of June 30, 2018), changes during the fiscal year and annual principal and interest payments for long-term debt outstanding are as follows:

REVENUE BONDS PAYABLE	Issue	Interest	Maturity	Balance			Balance
	Dates	Rates	Dates Through	June 1, 2017	Additions	Reductions	May 31, 2018
PTC.....	2005-18	various	2049	\$ 11,760,971	\$ 2,317,438	\$ 1,776,065	\$ 12,302,344
Less: unamortized bond discount.....				(893)	-	(469)	(424)
Add: unamortized bond premium.....				808,924	285,565	84,138	1,010,351
TOTAL				\$ 12,569,002	\$ 2,603,003	\$ 1,859,734	\$ 13,312,271

Year of Maturity	Principal	Interest	Total
2019.....	\$ 356,030	\$ 545,360	\$ 901,390
2020.....	325,205	538,193	863,398
2021.....	632,370	527,315	1,159,685
2022.....	586,435	507,524	1,093,959
2023.....	295,290	496,595	791,885
2024-28.....	1,427,173	2,310,315	3,737,488
2029-33.....	1,847,406	1,970,059	3,817,465
2034-38.....	2,803,603	1,408,445	4,212,048
2039-43.....	2,652,300	843,736	3,496,036
2044-48.....	1,238,657	204,603	1,443,260
2049-53.....	137,875	11,570	149,445
Total.....	\$ 12,302,344	\$ 9,363,715	\$ 21,666,059

REVENUE BONDS & NOTES PAYABLE	Issue	Interest	Maturity	Balance			Balance
	Dates	Rates	Dates Through	July 1, 2017	Additions	Reductions	June 30, 2018
PHFA.....	1999-18	various	2047	\$ 2,813,134	670,345	501,932	\$ 2,981,547
Add: unamortized bond premium.....				27,418	11,789	9,899	29,308
TOTAL				\$ 2,840,552	\$ 682,134	\$ 511,831	\$ 3,010,855

Year of Maturity	Principal	Interest	Total
2019.....	\$ 121,282	\$ 92,346	\$ 213,628
2020.....	127,322	89,754	217,076
2021.....	129,175	86,456	215,631
2022.....	120,660	83,060	203,720
2023.....	113,367	80,214	193,581
2024-28.....	552,936	359,003	911,939
2029-33.....	610,209	270,301	880,510
2034-38.....	581,786	166,910	748,696
2039-43.....	382,305	81,533	463,838
2044-48.....	238,925	20,225	259,150
2049-53.....	3,580	72	3,652
Total.....	\$ 2,981,547	\$ 1,329,874	\$ 4,311,421

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

The table below presents significant bond obligations of SSHE at June 30, 2018 and changes during the fiscal year then ended, followed by principal and interest payments for long-term debt outstanding.

BONDS PAYABLE	Issue	Interest	Maturity			Balance	
	Dates	Rates	Dates	Through	July 1, 2017	Balance	
					Additions	Reductions	June 30, 2018
SSHE.....	2008-17	various	2055	\$ 1,072,915	\$ 128,260	\$ 165,605	\$ 1,035,570
Year of Maturity	Principal	Interest	Total				
2019.....	\$ 74,270	\$ 44,867	\$ 119,137				
2020.....	82,625	41,478	124,103				
2021.....	67,825	37,645	105,470				
2022.....	68,240	34,552	102,792				
2023.....	69,240	31,242	100,482				
2024-28.....	267,245	111,236	378,481				
2029-33.....	188,670	60,553	249,223				
2034-38.....	137,055	27,238	164,293				
2039-43.....	70,895	7,556	78,451				
2044-48.....	4,710	1,652	6,362				
2049-53.....	3,505	865	4,370				
2054-58.....	1,290	89	1,379				
Total.....	\$ 1,035,570	\$ 398,973	\$ 1,434,543				

Note: The total principal obligations outstanding do not include \$901,934 in bonds payable and \$318,474 in notes payable reported by component units of the SSHE.

Conduit Debt

The PHFA is financing a portion of housing projects through the issuance of limited obligation or special limited obligation bonds to provide more affordable housing in the Commonwealth. These bonds are secured solely by the specific housing properties and related revenues or by appropriations to be paid by the U.S. Department of Housing and Urban Development. At June 30, 2018, the PHFA had \$301,655 of such bonds outstanding. Neither the PHFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

The State Public School Building Authority (SPSBA) finances construction and improvement projects for public schools through the issuance of tax-exempt instruments (bonds, notes or other obligations) for the purpose of making lower cost tax-exempt financing available to school districts and community colleges. The debt instruments issued by SPSBA represent limited obligations payable solely from lease/loan payments made by the borrowing institutions and related assets held by trustees. At June 30, 2018, the SPSBA had \$2,738,740 of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA) finances projects through the issuance of tax-exempt instruments (bonds, notes or other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2018, the PHEFA had \$5,884,998 of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from PEDFA financed project revenues. At June 30, 2018, the PEDFA had \$6,114,703 of debt outstanding of which \$4,787,988 represented conduit debt. Neither the PEDFA nor the Commonwealth has any obligation for this conduit debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

Refunded Debt**PTC**

In July 2017, the PTC issued \$371,395 2017 Series B-2 Subordinate Revenue Bonds at a fixed rate with a maturity date of June 1, 2039. The 2017 Series B-2 Subordinate Revenue Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2008 Series A-1 Subordinate Revenue Bonds (\$2,820), 2009 Series A Subordinate Revenue Bonds (\$62,675), 2009 Series B Subordinate Revenue Bonds (\$138,605), 2010 Series B-2 Subordinate Revenue Bonds (\$106,615), 2010 Series C-2 Subordinate Revenue Bonds (\$19,575), 2011 Series A Subordinate Revenue Bonds (\$18,190), 2012 Series A Subordinate Revenue Bonds (\$9,310), 2015 Series B Subordinate Revenue Bonds (\$12,940) and for paying the cost of issuing the 2017 Series B-2 Subordinate Revenue Bonds. The advanced refunding of 2008 Series A-1 Subordinate Revenue Bonds, 2009 Series A Subordinate Revenue Bonds, 2009 Series B Subordinate Revenue Bonds, 2010 Series B-2 Subordinate Revenue Bonds, 2010 Series C-2 Subordinate Revenue Bonds, 2011 Series A Subordinate Revenue Bonds, 2012 Series A Subordinate Revenue Bonds and 2015 Series B Subordinate Revenue Bonds allowed the PTC to reduce its debt service by approximately \$58,800. The transaction resulted in an economic gain of \$38,600.

In July 2017, the PTC issued \$45,390 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2028. The 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2010 Series B-2 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, (\$5,220), 2011 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$4,015), 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$12,560), 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$9,845), 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$6,430), 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$6,080), 2013 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$3,410) and for paying the cost of issuing the 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The advanced refunding of 2010 Series B-2 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2011 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2013 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds allowed the PTC to reduce its debt service by approximately \$4,400. The transaction resulted in an economic gain of \$4,400.

In October 2017, the PTC issued \$133,060 2017 Series A-2 Senior Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2030. The 2017 Series A-2 Senior Revenue Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2014 Series C Senior Revenue Bonds (\$7,015), 2014 Series A Senior Revenue Bonds (\$4,145), 2013 Series C Senior Revenue Bonds (\$18,240), 2012 Series A Senior Revenue Bonds (\$26,970), 2011 Series E Senior Revenue Bonds (\$84,295), and paying the costs of issuing the 2017 Series A-2 Senior Revenue Bonds. The advanced refunding of 2014 Series C Senior Revenue Bonds, 2014 Series A Senior Revenue Bonds, 2013 Series C Senior Revenue Bonds, 2012 Series A Senior Revenue Bonds, and 2011 Series E Senior Revenue Bonds allowed the Commission to reduce its debt service by approximately \$11,600. The transaction resulted in an economic gain of \$9,100.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

In October 2017, the PTC issued \$40,000 2017 Series B-1 Senior Revenue Bonds at a variable rate with a maturity of December 1, 2020. The 2017 Series B-1 Senior Revenue Bonds were issued primarily for the current refunding of the December 1, 2017 maturity of the PTC's 2014 Series B-1 Variable Rate Senior Revenue Bonds (\$40,000).

In October 2017, the PTC issued \$100,320 2017 Series B-2 Senior Revenue Bonds at a variable rate with a maturity of December 1, 2021. The 2017 Series B-2 Senior Revenue Bonds were issued primarily for the current refunding of the December 1, 2017 maturity of the PTC's 2016 Series A-2 Variable Rate Senior Revenue Bonds (\$100,000) and for paying the cost of issuing the 2017 Series B-1 Senior Revenue Bonds and the 2017 Series B-2 Senior Revenue Bonds.

In November 2017, the PTC issued \$150,425 2017 Second Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity of December 1, 2037. The 2017 Second Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2010 Series B-1 Subordinate Revenue Bonds (\$81,350), 2010 Series C-2 Subordinate Revenue Bonds (\$54,775), 2011 Series A Subordinate Revenue Bonds (\$6,135), 2015 Series B Subordinate Revenue Bonds (\$18,245) and for paying the costs of issuing the 2017 Second Series Subordinate Revenue Refunding Bonds. The advanced refunding of 2010 Series B-1 Subordinate Revenue Bonds, 2010 Series C-2 Subordinate Revenue Bonds, 2011 Series A Subordinate Revenue Bond and 2015 Series B Subordinate Revenue Bonds allowed the PTC to reduce its debt service by approximately \$22,300. The transaction resulted in an economic gain of \$13,700.

In November 2017, the PTC issued \$243,675 2017 Second Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2041. The 2017 Second Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2010 Series A-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$66,495), 2010 Series A-2 Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$75,670), 2010 Series B-2 Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$44,695), 2011 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$41,745), 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$6,815), 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$6,010), 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$4,270), 2013 Series B-3 Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$12,835) and for paying the cost of issuing the 2017 Second Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The advanced refunding of 2010 Series A-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2010 Series A-2 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2010 Series B-2 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2011 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2013 Series B-3 Motor License Fund-Enhanced Subordinate Special Revenue Bonds allowed the PTC to reduce its debt service by approximately \$40,100. The transaction resulted in an economic gain of \$26,500.

In December 2017, the PTC issued \$103,330 2017 Series C Senior Revenue Bonds at a fixed rate with a maturity date of December 1, 2021. The 2017 Series C Senior Revenue Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2011 Series E Senior Revenue Bonds (\$25,785), 2012 Series A Senior Revenue Bonds (\$26,985), 2013 Series C Senior Revenue Bonds (\$38,385) and to pay the cost of issuing the 2017 Series C Senior Revenue Bonds. The refunding of 2011 Series E Senior Revenue Bonds, 2012 Series A Senior Revenue Bonds and 2013 Series C Senior Revenue Bonds allowed the PTC to reduce its debt service by approximately \$39,500. The transaction resulted in an economic gain of \$12,800.

In December 2017, the PTC issued \$143,585 2017 Third Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2040. The 2017 Third Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding a portion of the PTC's 2010 Series C-1 Subordinate Revenue Bonds (\$51,595), 2011 Series B Subordinate Revenue Bonds (\$39,605), 2012 Series A Subordinate Revenue Bonds (\$21,610), 2012 Series B Subordinate Revenue Bonds (\$1,055), 2013 Series B-3 Subordinate Revenue Bonds (\$5,375), 2015 Series B Subordinate Revenue Bonds (\$29,870) and for paying the cost of issuing the 2017 Third Series Subordinate Revenue Refunding Bonds. The advanced

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

refunding of 2010 Series C-1 Subordinate Revenue Bonds, 2011 Series B Subordinate Revenue Bonds, 2012 Series A Subordinate Revenue Bonds, 2012 Series B Subordinate Revenue Bonds, 2013 Series B-3 Subordinate Revenue Bonds and 2015 Series B Subordinate Revenue Bonds allowed the PTC to reduce its debt service by approximately \$22,100. The transaction resulted in an economic gain of \$10,800.

In December 2017, the PTC issued \$164,240 2017 Third Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2040. The 2017 Third Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding a portion of the PTC's 2010 Series A-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$26,360), 2010 Series B-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$20,000), 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$45,930), 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$39,960), 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$13,915), 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$13,010), 2013 Series B-3 Motor License Fund-Enhanced Subordinate Special Revenue Bonds (\$7,255) and for paying the cost of issuing the 2017 Third Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The advanced refunding of 2010 Series A-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2010 Series B-1 Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds, 2013 Series B-3 Motor License Fund-Enhanced Subordinate Special Revenue Bonds allowed the PTC to reduce its debt service by approximately \$15,900. The transaction resulted in an economic gain of \$11,300.

PHFA

On September 28, 2017, the PHFA issued Series 2017-124 single family mortgage revenue bonds in the amount of \$206,965. A portion of the proceeds of this issuance and a PHFA contribution were used to refund \$13,710 of Series 2003-77 bonds and \$71,940 of Series 2017-123C bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$9,877 and a reduction of future debt service payments equal to \$16,704.

On December 19, 2017, the PHFA issued Series 2017-125 single family mortgage revenue bonds in the amount of \$300,205. A portion of the proceeds of this issuance and a PHFA contribution were used to refund \$14,695 of Series 2004-82B bonds, \$21,055 of Series 2004-82C bonds, \$21,540 of Series 2005-88B bonds, \$18,080 of series 2005-88C bonds, \$62,480 of series 2005-91B bonds and \$37,355 of series 2006-92B bonds. While successful at reducing the PHFA's exposure to arbitrage liability, this refunding resulted in an economic loss equal to \$5,909 and an increase of future debt service payments equal to \$2,374.

Other Postemployment Benefits (OPEB)

Each DPCU with employees participates in the Commonwealth's Retired Employees Health Program (REHP) except for the PTC and the PHFA, which have both established and sponsor their own, separate OPEB plans. The SSHE participates in the REHP, for certain employees, as well as its own, separate SSHE OPEB plan. All separate, non-REHP plans, have been established under pertinent statutory authority. All DPCUs, except for PTC, implemented GASB 75, Accounting and Financial Reporting for Postemployment Retirement Benefits Other Than Pensions, as of June 30, 2018. The PTC reported its net OPEB obligation as required by GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The PTC, with a fiscal year end of May 31, was not required to implement GASB 75 as of the issuance of this report. Net OPEB stand-alone plan obligations (assets) for PTC are reported at May 31, 2018 and the net OPEB liability for the PHFA, PHEAA, PENNVEST and SSHE at June 30, 2018 are as follows:

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

GASB 45

As of and for the fiscal year ended June 30, 2018	PTC (May 31, 2018)
Annual required contributions.....	\$ 8,384
Interest on net OPEB obligation.....	(7,965)
Adjustment to annual required contribution.....	17,046
Annual OPEB cost (expense).....	17,465
Qualifying contributions.....	(28,171)
Increase in net OPEB obligation/(asset).....	(10,706)
Net OPEB obligation/(asset), July 1, 2016.....	(122,542)
Net OPEB obligation/(asset), June 30, 2017....	\$ (133,248)

As of and for the fiscal year ended June 30, 2018	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued	Funded Ratio (assets as % of AAL)	Estimated Covered Payroll	UAAL as a Percentage of Covered
PTC (May 31, 2018).....	\$ 331,568	\$ 330,395	\$ (1,173)	100.4%	\$ 124,458	-0.9%

GASB 75

As of and for the fiscal year ended June 30, 2018	PHFA	PHEAA	PENNVEST	SSHE
Net OPEB liability.....	\$ 83,656	\$ 357,062	\$ 7,899	\$ 2,324,613
OPEB expense.....	\$ 5,138	\$ 20,693	\$ 100	\$ 98,976

Net Pension Liability and Pension Expense

The PTC, PHEAA, PENNVEST and SSHE all have employees that are members of the Pennsylvania State Employees Retirement System (SERS). The SSHE is also a member of the Public School Employees Retirement System (PSERS). For the fiscal year ended June 30, 2018 (May 31, 2018 for the PTC), these entities reported a net pension liability, proportionate share percentage and pension expense as follows:

SERS

Fiscal year ended June 30, 2018	PTC (May 31, 2018)	PHEAA	PENNVEST	SSHE
Net pension liability.....	\$ 329,112	\$ 413,878	\$ 6,105	\$ 848,315
Proportionate share percentage.....	1.90%	2.39%	0.04%	4.91%
Pension (expense) income.....	\$ (42,200)	\$ (66,039)	\$ 25	\$ (118,342)

PSERS

Fiscal year ended June 30, 2018	SSHE
Net pension liability.....	\$ 89,442
Proportionate share percentage.....	0.18%
Pension expense.....	\$ 19,902

The PHFA’s full time employees participate in two defined benefit single employer plans. For the fiscal year ended June 30, 2018, the PHFA reported a net pension liability of \$21,220 and a pension expense of \$3,598.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Commitments and Contingencies**PTC**

The PTC Commitment to the PG: In July 2007, Act 44 was signed into law and, among other things, provides funding for roads, bridges and transit throughout the Commonwealth. Under Act 44, the PTC and the Pennsylvania Department of Transportation (PennDOT) established a 50-year Lease and Funding Agreement (Agreement). Act 44 and the Agreement require the PTC to make scheduled quarterly payments to the PennDOT. Subsequently, in April 2014, the PTC and PennDOT executed Amendment Number One to the aforementioned Lease and Funding Agreement in accordance with Act 89 of November 2013. In accordance with Act 89 and the Amended Funding Agreement, the PTC's aggregate annual payment to PennDOT for fiscal year 2014 through fiscal year 2022 remains at \$450,000 and at 2023 through the term of the Amended Funding Agreement, the PTC's aggregate annual payment to PennDOT is \$50,000, which must be paid from current revenues. Through June 30, 2018 the PTC has paid PennDOT \$6,100,000; the **Motor License Fund** received \$2,250,000 and the Public Transportation Trust Fund received \$3,850,000.

Due to the significance of the quarterly payments under Act 44, the PTC currently does not have excess cash from operations to finance these required payments due to PennDOT. Therefore, the PTC plans to continue to increase toll rates annually and to issue debt for the foreseeable future to finance the majority of these payments. Act 44 authorizes the PTC to issue special revenue bonds up to an aggregate principal amount of \$5,000,000. No more than \$600,000 in aggregate principal amount of such special revenue bonds, exclusive of original issue discount, may be issued in any calendar year. No such bonds may be issued unless the amended funding agreement is in effect, and no such bonds may be outstanding beyond the stated term of the amended funding agreement at the time of issuance. Special revenue refunding bonds (as defined in § 9511.2 of Act 44) shall not be deemed to count against the total or annual maximum issuance volume under Act 44. Pursuant to Act 89, special revenue bonds may not be issued by the PTC to fund any portion of its annual payment obligation commencing July 1, 2014, as all of such annual payment obligation is to be deposited in the public transportation trust fund after such date, although special revenue refunding bonds could be issued. The outstanding principal related to these Special Revenue Bonds was \$980,241 at May 31, 2018.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Deferred Outflows and Inflows of Resources

The following table discloses the deferred outflows of resources and deferred inflows of resources at June 30, 2018 (May 31, 2018 for the PTC):

Deferred Outflows of Resources	PTC	PHFA	PHEAA	PENNVEST	SSHE
Hedge derivatives.....	\$ 71,003	\$ -	\$ -	\$ -	\$ -
Pensions					
Difference between expected and actual experience.....	5,565	5,439	6,998	103	15,276
Net difference between projected and actual investment earnings...	-	-	-	-	2,073
Changes in proportions.....	5,760	-	24,025	157	21,883
Changes in assumptions.....	16,477	5,032	20,721	305	44,902
Difference between employer contributions and proportionate share of total contributions.....	65	-	300	15	506
Contributions after the measurement date.....	18,835	2,050	24,873	368	61,636
OPEB					
Net difference between projected and actual investment earnings...	-	-	-	-	4
Changes in assumptions.....	-	15,586	-	-	-
Contributions after the measurement date.....	-	1,521	4,062	230	59,302
Deferred loss on bond refundings.....	415,773	3,350	2,345	-	8,821
	<u>\$ 533,478</u>	<u>\$ 32,978</u>	<u>\$ 83,324</u>	<u>\$ 1,178</u>	<u>\$ 214,403</u>
Deferred Inflows of Resources					
Deferred gain on bond refundings.....	\$ 2,896	\$ -	\$ 42,007	\$ -	\$ 796
Deferred gain on sales leaseback.....	-	-	161	-	-
Hedge derivatives.....	4,573	3,890	-	-	-
Split-interest agreements.....	-	-	-	-	10
Pensions					
Difference between expected and actual experience.....	6,249	405	7,858	116	16,647
Net difference between projected and actual investment earnings...	13,085	2,662	16,456	243	33,729
Changes in proportions.....	14,710	-	9,580	70	14,598
Changes in assumptions.....	-	1,175	-	-	-
Difference between employer contributions and proportionate share of total contributions.....	743	-	655	11	4,899
OPEB					
Difference between expected and actual experience.....	-	23,567	-	-	-
Net difference between projected and actual investment earnings...	-	-	-	7	719
Changes in proportions.....	-	-	-	-	41
Changes in assumptions.....	-	4,566	46,299	720	197,944
Service concession arrangements.....	121,674	-	-	-	-
Total.....	<u>\$ 163,930</u>	<u>\$ 36,265</u>	<u>\$ 123,016</u>	<u>\$ 1,167</u>	<u>\$ 269,383</u>

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**Subsequent Events****PTC**

On June 5, 2018, the PTC issued \$231,385 2018 Series A Oil Franchise Tax Senior Revenue Bonds and \$210,480 2018 Series B Oil Franchise Tax Subordinate Revenue Bonds. The 2018 Series A Oil Franchise Tax Senior Revenue Bonds were issued to finance the costs of various capital expenditures for the Turnpike System as set forth in the PTC's current or any prior Independently Funded Capital Plan, including but not limited to, the funding of capital expenditures related to the Southern Beltway or the Mon-Fayette Expressway (2018 Construction Project) and for paying the costs of issuing the 2018 Series A Oil Franchise Tax Senior Revenue Bonds. The 2018 Series B Oil Franchise Tax Subordinate Revenue Bonds were issued to provide funds to finance the costs of the 2018 Construction Project, funding necessary reserves or similar funds to the extent required for such financing and for paying the costs of issuing the 2018 Series B Oil Franchise Tax Subordinate Revenue Bonds.

On June 28, 2018, the PTC issued \$182,455 2018 Series A-1 Variable Rate Senior Revenue Bonds and \$307,935 2018 Series A-2 Senior Revenue Bonds. The 2018 Series A-1 Variable Rate Senior Revenue Bonds were issued to finance the current refunding of the PTC's outstanding 2013 Series A Variable Rate Senior Revenue Bonds maturing December 1, 2018, the current refunding of the PTC's 2014 Series B-1 Variable Rate Senior Revenue Bonds maturing December 1, 2018, the current refunding of all of the PTC's outstanding 2016 Series A-2 Variable Rate Senior Revenue Bonds maturing December 1, 2018 and for the costs of issuing the 2018 Series A-1 Variable Rate Senior Revenue Bonds. The 2018 Series A-2 Senior Revenue Bonds were issued for financing various capital expenditures set forth in the PTC's current or any prior Ten-Year Capital Plan, to deposit to the Debt Service Reserve Fund and capitalized interest on the 2018 Series A-2 Senior Revenue Bonds and the costs of issuing the 2018 Series A-2 Senior Revenue Bonds.

On July 19, 2018, the PTC executed the First Amendment to Continuing Covenant Agreement and Supplemental Trust Indenture No. 3 relating to modifications of the 2005 Series B, C and D Registration Fee Revenue Refunding Bonds. These amendments extended the bonds to July 19, 2023 and modified other various terms of the agreement.

On July 31, 2018, the PTC executed Amendment No. 2 to the Lease and Funding Agreement with PennDOT. The Amendment allowed for (i) the due date for the July 2018 payment to be extended to the last business day of October 2018 or other such later date, no later than June 30, 2019 as may be agreed to by the PTC and PennDOT and (ii) the due date for any subsequent payment in the fiscal year ending June 30, 2019 may be extended to any later date, no later than June 30, 2019 as may be agreed to by the PTC and PennDOT. In addition, the Amendment replaced the reference therein to "bondholder, debt holders, or creditors having such status as of the Effective Date" with "current bondholders, debt holders or creditors". Other various terms of the agreement were modified as well.

On September 20, 2018 the PTC entered into a \$179,815 Series of 2019 Forward Delivery Refunding Senior Revenue Bonds at a fixed rate with a maturity of December 1, 2025. The Series of 2019 Forward Delivery Refunding Senior Revenue Bonds are being issued for the purpose of financing the current refunding of the PTC's 2009 Series B Senior Revenue Bonds (\$190,080) and paying the cost of issuing the Series of 2019 Forward Delivery Refunding Senior Revenue Bonds. The Series of 2019 Forward Delivery Refunding Senior Revenue Bonds will be delivered on or about September 24, 2019 subject to the approval of validity and certain other matters by Bond Counsel and the satisfaction of certain other conditions set forth in the Forward Delivery Purchase Agreement.

On November 6, 2018 the PTC issued \$141,200 2018 Series B Senior Revenue Bonds at a variable rate with a maturity of December 1, 2023. The 2018 Series B Senior Revenue Bonds were issued primarily for the current refunding of the PTC's 2017 Series B-1 Senior Revenue Bonds (\$40,000), 2017 Series B-2 Senior Revenue Bonds (\$100,320) and paying the cost of issuing the 2018 Series B Senior Revenue Bonds.

On October 16, 2018 the PTC executed a partial reversal of the Mainline Basis Swap associated with the PTC's Series 2009 A Bonds, receiving \$3,403. The counterparty for this transaction is Goldman Sachs.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

On October 22, 2018 the PTC executed a partial reversal of the Mainline Basis Swap associated with the PTC's Series 2010 B Bonds, receiving \$3,422. The counterparty for this transaction is Deutsche Bank.

On November 13, 2018 the PTC issued \$45,000 EB-5 Loan (Second Tranche) at a fixed rate with a maturity of November 13, 2023. The PTC is borrowing this money to fund a portion of the costs of certain capital projects included in the PTC's current Ten-Year Capital Plan and for paying the cost of issuing the EB-5 Loan.

On December 4, 2018 the PTC authorized the further restructuring of the PTC Motor Vehicle Registration Fee Revenue Refunding Bonds Series B, C and D of 2005 by converting from a Libor based calculation to a SIFMA based calculation while such bonds are in an index rate mode and upon such conversion, the remarketing of these bonds to the direct purchaser.

PHEAA

On October 9, 2018, the PHEAA Student Loan Foundation (Foundation) entered into a trust agreement with a financial institution that created the PHEAA Student Loan Trust 2018-1 ("2018-1 Trust") and on that same date the 2018-1 Trust was formed as a statutory trust under the Delaware Statutory Act, 12 Del. C. Section 3801, et seq. The principal purpose of the 2018-1 Trust is to securitize student loans and student loan related assets, to acquire student loans from the Foundation and issue one or more classes of securities secured by a pledge of such assets.

On October 29, 2018, the 2018-1 Trust issued \$141,500 of original principal amount of student loan asset backed notes, Class A-1, at par, and \$285,200 of original principal amount of student loan asset back notes, Class A-2, at par. The Class A-1 notes were issued with an interest rate of 1-month LIBOR plus 0.30% with a final maturity date of October 25, 2068. The Class A-2 notes were issued with an interest rate of 1-month LIBOR plus 0.77% with a final maturity date of October 25, 2068.

PHFA

On August 15, 2018, the PHFA sold single family mortgage revenue bonds Series 2018-127 totaling \$173,450. Proceeds included a portion used for refunding certain single family mortgage revenue bonds previously issued by the PHFA equal to \$23,450; the remainder was used to purchase new single family mortgage loans. Settlement and closing occurred on September 24, 2018.

On August 15, 2018, the PHFA sold single family mortgage revenue bonds Series 101C totaling \$9,655. All proceeds of these fixed rate bonds were used to refund the entire outstanding balance of variable rate single family mortgage revenue bonds series 2008-101C equal to \$9,655. Settlement and closing occurred on September 24, 2018.

As of October 26, 2018, the effective date of the PHFA's financial statements, \$10,677 of construction contracts totaling \$26,106 was still outstanding.

SSHE

In September 2018, PHEFA issued Series AV-1 tax-exempt revenue bonds in the amount of \$102,345 and Series AV-2 taxable revenue bonds in the amount of \$134,600. The net proceeds from the Series AV-1 revenue bonds were used to finance a capital project at West Chester University and to current refund Series AG and a significant portion of Series AI revenue bonds. The refunding was performed to reduce debt service by approximately \$2,700 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,400. The net proceeds from the Series AV-2 revenue bonds were used to acquire student housing facility at Shippensburg University. In connection with the bond issuance, the SSHE entered into a loan agreement with PHEFA under which the SSHE pledged its full faith and credit for repayment of bonds.

NOTE 17 – SUBSEQUENT EVENTS**Bond Redemption**

In July 2018, the Department of Labor & Industry, through the Pennsylvania Economic Development Financing Authority, called a total of \$125,795 Series 2012 B Unemployment Compensation Revenue Bonds for early redemption at face value. The bonds carried an interest rate of 5% and the maturity date for these bonds was July 1, 2021.

NOTE 18 – RESTATEMENTS**Restatement Due to Adoption of New Accounting Standards**

Effective July 1, 2017, the Commonwealth implemented the Governmental Accounting Standards Board's (GASB) Statement No. 75, Accounting and Financial reporting for Postemployment Benefits Other Than Pensions, and GASB Statement No. 81, Irrevocable Split-Interest Agreements.

GASB 75 replaces GASB 45 and establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employers. This standard establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense. The implementation of GASB 75 resulted in the reporting of an OPEB liability and deferred outflow of resources, therefore, the Commonwealth's beginning net position has been restated.

GASB 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB 81 resulted in the reporting of beneficial interests and deferred inflow of resources, therefore, the Commonwealth's beginning net position has been restated.

Presented on the following page are the changes to the Government-wide Statement of Net Position, and the Proprietary Funds Statement of Net Position as a result of implementing GASB 75 and GASB 81. Details of the discretely presented component unit restatements are disclosed in Note 16.

NOTE 18 – RESTATEMENTS (continued)

Government-wide Statement of Net Position

	Governmental Activities	Business-type Activities	Total	Component Units
Net position, as previously reported, at June 30, 2017.....	\$ 12,429,094	\$ 725,201	\$ 13,154,295	\$ 1,291,483
Implementation of GASB 75				
General Fund.....	(19,618,796)	-	(19,618,796)	-
Motor License Fund.....	(1,676,748)	-	(1,676,748)	-
Other non-major governmental activities.....	(1,127,224)	-	(1,127,224)	-
Unemployment Compensation Fund.....	-	(4,492)	(4,492)	-
State Workers' Insurance Fund.....	-	(63,759)	(63,759)	-
State Lottery Fund.....	-	(91,622)	(91,622)	-
State Stores Fund.....	-	(794,099)	(794,099)	-
Other non-major business-type activities.....	-	(58,490)	(58,490)	-
PFHA - Note 16.....	-	-	-	(49,724)
PHEAA - Note 16.....	-	-	-	(382,668)
PennVest - Note 16.....	-	-	-	(7,041)
SSHE - Note 16.....	-	-	-	(1,280,301)
Other non-major component units.....	-	-	-	(41,975)
Implementation of GASB 81				
SSHE - Note 16.....	-	-	-	13,497
Total net position, as restated, at July 1, 2017.....	\$ (9,993,674)	\$ (287,261)	\$ (10,280,935)	\$ (456,729)

Proprietary Funds Statement of Net Position

	Unemployment Compensation Fund	State Workers' Insurance Fund	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Proprietary Funds	Total
Net position, as previously reported, at June 30, 2017.....	\$ 1,746,563	\$ (233,760)	\$ (323,127)	\$ 282,773	\$ (402,890)	\$ (1,238,027)	\$ 893,669	\$ 725,201
Implementation of GASB 75.....	(4,492)	(63,759)	(91,622)	-	(794,099)	-	(58,490)	(1,012,462)
Total net position, as restated, at July 1, 2017.....	\$ 1,742,071	\$ (297,519)	\$ (414,749)	\$ 282,773	\$ (1,196,989)	\$ (1,238,027)	\$ 835,179	\$ (287,261)

	Internal Service Funds
Net position, as previously reported, at June 30, 2017.....	\$ 29,510
Implementation of GASB 75.....	(65,002)
Total net position, as restated, at July 1, 2017.....	\$ (35,492)

Statement of Fiduciary Net Position

	Pension (and Other Employee Benefit) Trust Funds
Net position, as previously reported, at June 30, 2017.....	\$ 83,437,252
Implementation of GASB 75.....	(80,076)
Total net position, as restated, at July 1, 2017.....	\$ 83,357,176



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Required Supplementary Information

Commonwealth of Pennsylvania

Schedule of Pension Amounts

Commonwealth's Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years Ended June 30 (1)

(Amounts in thousands)

	2018	2017	2016 (2)	2015
SERS as of 12/31				
Commonwealth's portion of the net pension liability.....	82.48%	82.44%	83.05%	82.94%
Commonwealth's proportionate share of the net pension liability	\$ 14,261,464	\$ 15,879,154	\$ 15,097,007	\$ 12,318,240
Commonwealth's covered payroll.....	\$ 4,859,626	\$ 4,801,482	\$ 4,883,069	\$ 4,668,334
Commonwealth's proportionate share of the net pension liability as a percentage of its covered payroll.....	293.47%	330.71%	309.17%	263.87%
Plan fiduciary net position as a percentage of the total pension liability.....	63.00%	57.80%	58.90%	64.80%
PSERS as of 6/30				
Non-employer contributing entity				
Commonwealth's proportionate share of the net pension liability	\$ 290,651	\$ 291,791	\$ 251,536	\$ 223,083

- The notes to required supplementary information are an integral part of this schedule. -

(1) The Commonwealth adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only four years are presented in the above schedule.

(2) Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th Investigation of Actuarial Experience study for the period 2011 – 2015 was released in March 2016 and can be viewed at www.sers.pa.gov. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was an increase to the net pension liability.

Commonwealth of Pennsylvania
Schedule of Pension Amounts
Commonwealth's Schedule of Contributions
For the Last Ten Fiscal Years Ended June 30 (1)
(Amounts in thousands)

	<u>2018 (2)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SERS as of 6/30 (3)				
Contractually required contribution.....	\$ 1,669,819	\$ 1,473,131	\$ 1,222,732	\$ 1,005,654
Contributions in relation to the contractually required contribution.....	<u>\$ (1,664,550)</u>	<u>\$ (1,473,131)</u>	<u>\$ (1,222,732)</u>	<u>\$ (1,005,654)</u>
Contribution deficiency (excess) (4).....	\$ 5,269	\$ -	\$ -	\$ -
Commonwealth's covered payroll.....	\$ 4,922,164	\$ 4,831,379	\$ 4,682,957	\$ 4,678,587
Contributions as a percentage of its covered payroll.....	33.82%	30.49%	26.11%	21.49%
PSERS as of 6/30				
Non-employer				
Contributions to the plan.....	<u>\$ 25,763</u>	<u>\$ 22,510</u>	<u>\$ 18,732</u>	<u>\$ 14,994</u>

- The notes to required supplementary information are an integral part of this schedule. -

(1) The Commonwealth adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only four years are presented in the above schedule.

(2) Contributions to the PSERS plan as of June 30, 2018 are based on an accrued estimate, and are revised annually to the Commonwealth's proportionate share of contributions reported by PSERS.

(3) Prior years revised at June 30, 2018 to reflect amounts as of the year ended June 30, previously reported as of the year ended December 31.

(4) Contribution deficiency was fully satisfied in December 2018.

Commonwealth of Pennsylvania
Schedule of OPEB Amounts
Changes in the Net OPEB Liability and Related Ratios
For the Last Ten Fiscal Years Ended June 30 (1)

(Amounts in thousands)

REHP		
As of and for the fiscal year ended June 30	2018 (2)	2017
Total OPEB liability		
Service cost.....	\$ 527,110	\$ 617,953
Interest.....	736,947	633,617
Changes in benefit terms.....	-	-
Differences between expected and actual experience.....	(5,445,495)	-
Changes of assumptions.....	(576,855)	(2,228,187)
Benefit payments.....	(611,081)	(649,705)
Contributions - retiree.....	48,585	52,198
Net change in total OPEB liability.....	\$ (5,320,789)	\$ (1,574,124)
Total OPEB liability - beginning.....	20,336,764	21,910,888
Total OPEB liability - ending (a).....	\$ 15,015,975	\$ 20,336,764
Plan fiduciary net position		
Contributions - employer.....	\$ 591,796	\$ 653,720
Contributions - retiree.....	48,585	52,198
Net investment income.....	27,351	31,833
Benefit payments.....	(611,081)	(649,705)
Administrative expense.....	(5,232)	(6,213)
Net change in plan fiduciary net position.....	\$ 51,419	\$ 81,833
Plan fiduciary net position - beginning.....	282,429	200,596
Plan fiduciary net position - ending (b).....	\$ 333,848	\$ 282,429
Net OPEB liability (a) - (b).....	\$ 14,682,127	\$ 20,054,335
Plan fiduciary net position as a % of total OPEB liability.....	2.22%	1.39%
Covered-employee payroll.....	\$ 3,911,464	\$ 3,902,336
Total/Net OPEB liability as a % of covered-employee payroll.....	375.36%	513.91%

RPSP		
As of and for the fiscal year ended June 30	2018 (2)	2017
Total OPEB liability		
Service cost.....	\$ 161,103	\$ 193,336
Interest.....	225,601	196,049
Changes in benefit terms.....	-	-
Differences between expected and actual experience.....	(202,655)	-
Changes of assumptions.....	(272,746)	(803,662)
Benefit payments.....	(140,440)	(123,595)
Contributions - retiree.....	1,077	1,143
Net change in total OPEB liability.....	\$ (228,060)	\$ (536,729)
Total OPEB liability - beginning.....	6,209,658	6,746,387
Total OPEB liability - ending (a).....	\$ 5,981,598	\$ 6,209,658
Plan fiduciary net position		
Contributions - employer.....	\$ 133,813	\$ 122,870
Contributions - retiree.....	1,077	1,143
Net investment income.....	8,714	11,133
Benefit payments.....	(140,440)	(123,595)
Administrative expense.....	(473)	(417)
Net change in plan fiduciary net position.....	\$ 2,691	\$ 11,134
Plan fiduciary net position - beginning.....	93,666	82,532
Plan fiduciary net position - ending (b).....	\$ 96,357	\$ 93,666
Net OPEB liability (a) - (b).....	\$ 5,885,241	\$ 6,115,992
Plan fiduciary net position as a % of total OPEB liability.....	1.61%	1.51%
Covered-employee payroll.....	\$ 387,245	\$ 386,602
Total/Net OPEB liability as a % of covered-employee payroll.....	1519.77%	1581.99%

- The notes to required supplementary information are an integral part of this schedule. -

Notes to schedule:

(1) The Commonwealth adopted GASB 74 on a prospective basis for the fiscal year ended June 30, 2017; therefore only two years are presented in the above schedule.

(2) For the fiscal year ended June 30, 2018, the discount rate applied for the development of the net OPEB liability was 3.87%. The discount rate is based on the 20-year Bond Buyer GO Index. The investment rate of return used was 5.0% and the inflation rate was 2.6%.

Commonwealth of Pennsylvania
Schedule of OPEB Amounts
Contributions and Investment Returns
For the Last Ten Fiscal Years Ended June 30 (1)
(Amounts in thousands)

Schedule of Contributions

	2018	2017
REHP		
Contractually required contribution (2).....	\$ 493,288	\$ 734,378
Contributions in relation to the contractually required contribution.....	(591,796)	(653,720)
Contribution deficiency (excess).....	\$ (98,508)	\$ 80,658
Covered-employee payroll.....	\$ 3,911,464	\$ 3,902,336
Contributions as a % of covered-employee payroll.....	15.13%	16.75%
RPSPP		
Contractually required contribution (2).....	\$ 131,499	\$ 132,201
Contributions in relation to the contractually required contribution.....	(133,813)	(122,870)
Contribution deficiency (excess).....	\$ (2,314)	\$ 9,331
Covered-employee payroll.....	\$ 387,245	\$ 386,602
Contributions as a % of covered-employee payroll.....	34.56%	31.78%
Premium Assistance Plan		
Non-employer contributing entity		
Contributions to the plan.....	\$ 677	
Commonwealth's proportionate share of the net OPEB liability.....	11,990	

Investment Returns

Annual money-weighted rate of return, net of investment expense (3)	2018	2017
REHP	13.27%	13.27%
RPSPP	13.27%	13.27%

- The notes to required supplementary information are an integral part of this schedule. -

Notes to schedule:

(1) The Commonwealth adopted GASB 74 on a prospective basis for the fiscal year ended June 30, 2017; therefore, only two years are presented in the above schedule for REHP and RPSPP. The Commonwealth adopted GASB 75 on a prospective basis for the fiscal year ended June 30, 2018; therefore, only one year is presented in the above schedule for the Premium Assistance Plan.

(2) Contribution requirements for the REHP and RPSPP are determined annually by the Commonwealth based on projected cash flow requirements and a projected contribution toward pre-funding future cash outlays.

(3) The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts invested.

Commonwealth of Pennsylvania
Schedule of Changes in the Total OPEB Liability and Related Ratios
For the fiscal year ended June 30, 2018
(Amounts in thousands)

	<u>Judiciary</u>	<u>House</u>	<u>Senate</u>
Total OPEB liability (1)			
Service cost.....	\$ 22,279	\$ 32,884	\$ 4,116
Interest.....	25,155	16,804	13,284
Differences between expected and actual experience.....	-	-	-
Changes of assumptions.....	-	(50,056)	-
Benefit payments.....	(23,152)	(18,692)	(9,142)
Net changes in total OPEB liability.....	\$ 24,282	\$ (19,060)	\$ 8,258
Total OPEB liability - beginning.....	661,575	652,117	384,107
Total OPEB liability - ending.....	<u>\$ 685,857</u>	<u>\$ 633,057</u>	<u>\$ 392,365</u>
Covered-employee payroll.....	\$ 205,458	\$ 92,898	\$ 48,530
Total/Net OPEB liability as a % of covered-employee payroll.....	333.82%	681.45%	808.50%

- The notes to required supplementary information are an integral part of this schedule. -

Notes to schedule:

(1) GASB 75 was implemented by the Judiciary, House, and Senate for the fiscal year ended June 30, 2018. A trust or equivalent arrangement meeting the requirements of GASB 75 has not been established for the Judiciary, House, or Senate OPEB plans and assets have not been accumulated to fund OPEB.

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Major Funds
 General Fund
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Corporation taxes.....	\$ 5,109,000	\$ (112,600)	\$ 4,996,400	\$ (107,697)	\$ 4,888,703
Consumption taxes.....	12,117,200	41,200	12,158,400	(64,046)	12,094,354
Other taxes.....	14,907,100	96,500	15,003,600	16,744	15,020,344
TOTAL TAX REVENUE.....	32,133,300	25,100	32,158,400	(154,999)	32,003,401
Nontax revenue.....	2,570,800	22,900	2,593,700	(30,153)	2,563,547
TOTAL REVENUE STATE.....	34,704,100	48,000	34,752,100	(185,152)	34,566,948
less: Refunds.....	(1,385,000)	46,000	(1,339,000)	-	(1,339,000)
plus: Departmental services.....	4,397,055	-	4,397,055	27,638	4,424,693
TOTAL STATE PROGRAMS.....	37,716,155	94,000	37,810,155	(157,514)	37,652,641
Federal programs.....	26,955,598	272,808	27,228,406	-	27,228,406
TOTAL REVENUES.....	64,671,753	366,808	65,038,561	(157,514)	64,881,047
EXPENDITURES:					
State programs *.....	36,383,156	9,958	36,393,114	(20,362)	36,372,752
Federal programs.....	26,955,598	272,808	27,228,406	-	27,228,406
TOTAL EXPENDITURES.....	63,338,754	282,766	63,621,520	(20,362)	63,601,158
REVENUES UNDER EXPENDITURES.....	1,332,999	84,042	1,417,041	(137,152)	1,279,889
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	210,000	210,000	79,168	289,168
Transfer to Budget Stabilization Reserve Fund.....	-	(13,823)	(13,823)	(8,539)	(22,362)
TOTAL OTHER FINANCING SOURCES.....	-	196,177	196,177	70,629	266,806
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....	1,332,999	280,219	1,613,218	(66,523)	1,546,695
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2017, REVISED.....	(1,539,333)	15,000	(1,524,333)	-	(1,524,333)
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2018.....	\$ (206,334)	\$ 295,219	\$ 88,885	\$ (66,523)	\$ 22,362

* Current year lapse amount in the Actual (Budgetary Basis) column is already netted out of the state expenditure amount.

For Supporting Documentation, please go to www.budget.pa.gov

- The notes to required supplementary information are an integral part of this schedule. -

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Major Funds
 Special Revenue Fund-Motor License
 For the Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Liquid fuels taxes.....	\$ 1,856,400	\$ (600)	\$ 1,855,800	\$ (9,397)	\$ 1,846,403
Motor licenses and fees.....	992,400	45,900	1,038,300	7,296	1,045,596
Other Motor License Fund revenues *.....	47,700	(500)	47,200	9,293	56,493
TOTAL REVENUE STATE.....	<u>2,896,500</u>	<u>44,800</u>	<u>2,941,300</u>	<u>7,192</u>	<u>2,948,492</u>
plus: Departmental services *.....	76,551	-	76,551	(4,548)	72,003
TOTAL STATE PROGRAMS.....	<u>2,973,051</u>	<u>44,800</u>	<u>3,017,851</u>	<u>2,644</u>	<u>3,020,495</u>
Federal programs.....	2,020,808	-	2,020,808	(281,307)	1,739,501
TOTAL REVENUES.....	<u>4,993,859</u>	<u>44,800</u>	<u>5,038,659</u>	<u>(278,663)</u>	<u>4,759,996</u>
EXPENDITURES:					
State programs.....	2,971,498	-	2,971,498	(13,287)	2,958,211
Federal programs.....	2,020,808	-	2,020,808	(281,307)	1,739,501
TOTAL EXPENDITURES.....	<u>4,992,306</u>	<u>-</u>	<u>4,992,306</u>	<u>(294,594)</u>	<u>4,697,712</u>
REVENUES OVER (UNDER) EXPENDITURES.....	<u>1,553</u>	<u>44,800</u>	<u>46,353</u>	<u>15,931</u>	<u>62,284</u>
OTHER FINANCING SOURCES:					
Current year lapses **.....	-	9,434	9,434	(9,434)	-
Prior year lapses.....	-	68,154	68,154	12,899	81,053
TOTAL OTHER FINANCING SOURCES.....	<u>-</u>	<u>77,588</u>	<u>77,588</u>	<u>3,465</u>	<u>81,053</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....	<u>1,553</u>	<u>122,388</u>	<u>123,941</u>	<u>19,396</u>	<u>143,337</u>
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2017.....	<u>73,099</u>	<u>-</u>	<u>73,099</u>	<u>-</u>	<u>73,099</u>
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2018.....	<u>\$ 74,652</u>	<u>\$ 122,388</u>	<u>\$ 197,040</u>	<u>\$ 19,396</u>	<u>\$ 216,436</u>

* Act 44 receipts are included in Other **Motor License Fund** Revenues.

** Current year lapse amount in the Actual (Budgetary Basis) column is already netted out of the state expenditure amount.

For Supporting Documentation, please go to www.budget.pa.gov

- The notes to required supplementary information are an integral part of this schedule. -

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (amounts in thousands)

Note 1 - Budget Preparation Process

The process of preparing the **General Fund** Budget for the Commonwealth of Pennsylvania begins nearly one year before the new budget is anticipated to be enacted and takes effect on July 1 each year. The budget process begins in August of the year previous to the budget year with the distribution of both the Budget Instructions and Program Policy Guidelines by the Office of the Budget and the Governor's Office, respectively. These provide detailed guidelines and define major policy issues to be considered when agencies complete their budget requests. As required by statute, agencies must prepare budgets that indicate the cost of supporting activities at the level expected in the immediate budget year and the ensuing four budget years. The five-year horizon does not include future program changes but considers the requirements and demands of current law, regulation, policy and program decisions.

Agencies submit budget requests to the Secretary of the Budget beginning in early October. From October through January, the Office of the Budget reviews these requests for accuracy and adherence to policy guidelines and prepares funding recommendations for the Secretary of the Budget and the Governor.

During December, the Governor meets with leaders of the General Assembly to inform them of anticipated spending and revenue levels and to discuss related budgetary issues. The Governor then conducts reviews to make the final budget decisions. The Governor's Executive Budget is finalized in January and is submitted to the General Assembly in early February.

After receiving the budget document, the appropriations committees of both houses of the legislature hold hearings to review agency funding requests. The General Assembly passes the budget in the form of a General Appropriations Bill and individual appropriations bills. At the time of passage of these bills and their presentation to the Governor, the official revised revenue estimates for the budget year are issued. If the combined appropriations bills passed by the legislature exceed the revenue estimates, the Governor is required and has the authority to either veto entire appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance. The Governor also has the power to reduce or veto any specific appropriation even if the total appropriations do not exceed estimated revenues. The Governor's signing of the appropriations bills and any revenue bills is the last step in the approval stage of the budget.

Additional information regarding Pennsylvania's budgeting process may be located at: www.budget.pa.gov and click on Current and Proposed Commonwealth Budgets.

Note 2 – Basis of Budgeting

On the budgetary basis, certain estimated tax revenue accruals are recorded at fiscal year-end for the **General Fund** and the **Motor License Fund**, a special revenue fund. Accruals include sales and use taxes and personal income taxes, both applicable to the **General Fund**, and liquid fuels taxes applicable to the **Motor License Fund**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year-end. Actual budgetary federal program revenues are recorded in amounts equal to federal expenditures. Also, estimated encumbrances and unspent appropriation balances are available for all funds at fiscal year-end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but paid in the subsequent year. Over-estimates of prior year encumbrances and available appropriation balances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

Budgeted revenues in the budgetary comparison schedules represent official estimates while expenditures represent amounts originally adopted or legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis differs from the modified accrual basis of accounting for governmental funds, a reconciliation of the differences between budgetary basis and the modified accrual basis of reporting is presented.

Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, a special revenue fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing special revenue funds). The budgetary comparison schedules for budgeted major and

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (amounts in thousands)

nonmajor funds present comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting for the major budgeted funds:

	<u>General Fund</u>			
	<u>General</u>	<u>General</u>		<u>Motor</u>
	<u>Fund</u>	<u>Fund</u>		<u>License</u>
	<u>(Budgeted)</u>	<u>Components</u>	<u>Total</u>	<u>Fund</u>
		<u>(Nonbudgeted)</u>		
Budgetary basis – revenues and other sources under expenditures and other uses.....	\$ 1,546,695	\$ -	\$ 1,546,695	\$ 143,337
Adjustments:				
<u>Basis differences</u>				
To adjust revenues, other financing sources and related receivables and unearned revenue.....	(1,559,621)	-	(1,559,621)	2,023,858
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	1,418,279	-	1,418,279	(2,172,435)
Basis difference adjustments.....	<u>(141,342)</u>	<u>-</u>	<u>(141,342)</u>	<u>(148,577)</u>
<u>Perspective differences</u>				
Nonbudgeted statutory funds which are financially reported as part of this fund:				
Revenues.....	-	761,672	761,672	400
Expenditures.....	-	(655,747)	(655,747)	(314)
Perspective difference adjustments..	<u>-</u>	<u>105,925</u>	<u>105,925</u>	<u>86</u>
Net adjustments.....	<u>(141,342)</u>	<u>105,925</u>	<u>(35,417)</u>	<u>(148,491)</u>
Modified accrual basis – net change in governmental fund balance.....	<u>\$ 1,405,353</u>	<u>\$ 105,925</u>	<u>\$ 1,511,278</u>	<u>\$ (5,154)</u>

The above revenue adjustments include net revenue accruals and unearned revenue, amounts to recognize certain pass-through grants, and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to federal and other grants that are not reported for budgetary reporting purposes.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (amounts in thousands)

Note 4 – Budgetary Compliance – Legal Level of Budgetary Control

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes a net \$9.9 of appropriation increases approved for the fiscal year ended June 30, 2018.

A separately available report, the “*Status of Appropriations*” (**General Fund**), demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2018. This report includes a variety of detailed information and summaries related to individual appropriations. A second “*Status of Appropriations*” report (for special funds) demonstrates compliance for the four budgeted special revenue funds: **Motor License**, Workers’ Compensation Administration, Banking Department and Milk Marketing. Both “*Status*” reports are available online at the Office of the Budget internet site: www.budget.pa.gov and click on Publications and Reports and then click on Status of Appropriations. The Governor controls spending by using executive authorizations for special revenue funds not controlled by legislatively adopted budgets.

To assist the user of the budgetary comparison schedule, additional supporting documentation is available at: www.budget.pa.gov by clicking on Publications and Reports at the top of the page and then click on Annual Financial Reports and finally click on ‘**General Fund** Budgetary Comparison Schedule Rationale’ and ‘**Motor License Fund** Budgetary Comparison Schedule Rationale’ at the bottom of the page.

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Combining Financial Statements

Including
Nonmajor Budgetary Comparison Schedules

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

June 30, 2018

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash.....	\$ 42,432	\$ -	\$ 27	\$ 42,459
Temporary investments.....	2,001,995	53,166	1,646,082	3,701,243
Long-term investments.....	1,615,068	-	141,774	1,756,842
Receivables (net):				
Taxes.....	-	-	37,438	37,438
Accounts.....	187,688	3,222	-	190,910
Investment income.....	6,759	88	3,023	9,870
Other.....	63,684	-	-	63,684
Due from other funds.....	187,247	-	18,527	205,774
Due from pension trust funds.....	2,465	-	-	2,465
Due from component units.....	14,797	341	-	15,138
Due from Federal government.....	43,040	-	-	43,040
Advances to other funds.....	182,250	-	-	182,250
TOTAL ASSETS.....	\$ 4,347,425	\$ 56,817	\$ 1,846,871	\$ 6,251,113
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 330,725	\$ 1	\$ 111,263	\$ 441,989
Investment purchases payable.....	444	-	-	444
Securities lending obligations.....	38,873	-	1,084	39,957
Due to other funds.....	109,482	-	3,713	113,195
Due to component units.....	15,004	-	-	15,004
Due to pension trust funds.....	2,199	-	18	2,217
Due to political subdivisions.....	147,222	-	71,069	218,291
Due to other governments.....	482	-	5	487
Unearned revenue.....	101,922	3,222	-	105,144
Advances from other funds.....	19,500	-	-	19,500
TOTAL LIABILITIES.....	765,853	3,223	187,152	956,228
Deferred inflows of resources:				
TOTAL DEFERRED INFLOWS OF RESOURCES.....	176,299	-	-	176,299
Fund balances:				
Restricted.....	3,347,768	-	-	3,347,768
Committed.....	66,986	53,594	1,659,719	1,780,299
Unassigned deficit.....	(9,481)	-	-	(9,481)
TOTAL FUND BALANCES.....	3,405,273	53,594	1,659,719	5,118,586
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 4,347,425	\$ 56,817	\$ 1,846,871	\$ 6,251,113

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund
Balances-Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes.....	\$ 1,881,239	\$ -	\$ 343,139	\$ 2,224,378
Licenses and fees.....	1,276,438	-	-	1,276,438
Intergovernmental.....	876,441	26,963	-	903,404
Charges for sales and services.....	248,572	-	992	249,564
Investment income.....	94,589	410	19,886	114,885
Other.....	366,972	13,831	1	380,804
TOTAL REVENUES	4,744,251	41,204	364,018	5,149,473
EXPENDITURES:				
Current:				
Direction and supportive services.....	427,833	-	35,235	463,068
Protection of persons and property.....	733,480	-	341	733,821
Health and human services.....	738,915	-	-	738,915
Public education.....	619,499	-	15,835	635,334
Recreation and cultural enrichment.....	187,870	-	55,128	242,998
Economic development.....	263,237	-	246,071	509,308
Transportation.....	1,197,032	-	364,533	1,561,565
Capital outlay.....	30,812	-	306,378	337,190
Debt service:				
Principal retirement.....	-	724,720	-	724,720
Interest and fiscal charges.....	-	535,939	3,893	539,832
TOTAL EXPENDITURES	4,198,678	1,260,659	1,027,414	6,486,751
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	545,573	(1,219,455)	(663,396)	(1,337,278)
OTHER FINANCING SOURCES (USES):				
Bonds issued.....	-	41,150	1,205,850	1,247,000
Refunding bonds issued.....	-	969,530	500	970,030
Premium on debt issuance.....	-	169,837	67,326	237,163
Discount on bonds issued.....	-	-	(1,430)	(1,430)
Transfers in.....	309,630	1,222,179	9,636	1,541,445
Transfers out.....	(689,877)	-	(138,011)	(827,888)
Payment to refunded bond escrow agent.....	-	(1,136,887)	-	(1,136,887)
NET OTHER FINANCING SOURCES (USES).....	(380,247)	1,265,809	1,143,871	2,029,433
NET CHANGE IN FUND BALANCES.....	165,326	46,354	480,475	692,155
FUND BALANCES JULY 1, 2017.....	3,239,947	7,240	1,179,244	4,426,431
FUND BALANCES JUNE 30, 2018.....	\$ 3,405,273	\$ 53,594	\$ 1,659,719	\$ 5,118,586

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Special Revenue Funds

Including
Nonmajor Budgetary Comparison Schedules

**SPECIAL REVENUE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Banking Fund — to account for the administration of the Department of Banking and regulation of financial institutions. Revenue is received from fees, assessments, charges, and penalties collected or recovered from persons, firms, corporations, or associations regulated by the Department of Banking.

Milk Marketing Fund — to account for the operation of the Milk Marketing Board and to serve as a depository for amounts due to dairy farmers from underpayments by dealers. Revenue is received from license fees, fines, penalties, and permits relating to the milk industry.

Workers' Compensation Administration Fund — to account for the administration of the Pennsylvania Workers' Compensation Act and the Pennsylvania Occupational Disease Act. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

Workers' Compensation Security Fund — to account for the payment of workers' compensation claims to individuals who are insured by an insolvent insurance company and for the costs to administer the program. The revenues are mainly from investment income and early access and large deductible reimbursements (court ordered distributions from liquidated insurers), along with recoveries of reimbursements made on large deductible policies.

Tobacco Settlement Fund — established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the Master Settlement Agreement, strategic contribution payments from the Master Settlement Agreement, and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program.

Public Transportation Trust Fund — to provide dedicated funding for public transportation in the Commonwealth. Revenues come from scheduled payments by the Pennsylvania Turnpike Commission, a portion of the Sales and Use Tax, and transfers from the Public Transportation Assistance Fund and the **Lottery Fund**. Monies in this fund are disbursed as grants to public transit agencies for operating costs (including Shared Ride and Free Transit for Older Pennsylvanians), capital and asset improvements, and programs of statewide significance.

Gaming Fund — to account for the administration of the Race Horse Development and Gaming Act. Revenue is received from license fees and a percentage of the gross terminal revenue generated by licensed gaming facilities.

Other — to account for programs related to restoration, conservation, protection, and management of natural resources; the payment of prescription drugs for eligible citizens 65 years or older; the preservation of historical landmarks; vocational rehabilitation services; administrative and regulatory activities of various departmental programs; and miscellaneous Commonwealth activities. This "Other" category is an aggregation of 41 individual special revenue funds.

There are a total of 49 individual special revenue funds; the **Motor License Fund** is reported as a Major Fund in the basic financial statements.

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

Special Revenue Funds
 June 30, 2018

(Amounts in thousands)

	Budgeted Funds								Total
	Banking	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming	Other	
ASSETS									
Cash.....	\$ 72	\$ 35	\$ -	\$ -	\$ 241	\$ 2,702	\$ 6,532	\$ 32,850	\$ 42,432
Temporary investments.....	14,657	3,657	87,514	44,355	109,693	374,541	627,620	739,958	2,001,995
Long-term investments.....	15,193	-	-	691,144	-	308,492	-	600,239	1,615,068
Receivables (net):									
Accounts.....	11,233	-	-	-	176,299	-	8	148	187,688
Investment income.....	62	6	-	3,264	-	713	1,078	1,636	6,759
Other.....	-	-	-	-	-	-	-	63,684	63,684
Due from other funds.....	8	1	29	-	-	160,668	18	26,523	187,247
Due from pension trust funds.....	-	-	-	-	-	166	-	2,299	2,465
Due from component units.....	-	-	-	-	-	-	14,797	-	14,797
Due from Federal government.....	-	-	-	-	28,035	-	-	15,005	43,040
Advances to other funds.....	-	-	16,500	165,750	-	-	-	-	182,250
TOTAL ASSETS.....	\$ 41,225	\$ 3,699	\$ 104,043	\$ 904,513	\$ 314,268	\$ 847,282	\$ 650,053	\$ 1,482,342	\$ 4,347,425
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES									
Liabilities:									
Accounts payable and accrued liabilities.....	\$ 1,003	\$ 91	\$ 2,718	\$ 4,473	\$ 95,842	\$ 61,851	\$ 37,445	\$ 127,302	\$ 330,725
Investment purchases payable.....	-	-	-	444	-	-	-	-	444
Securities lending obligations.....	116	-	-	31,807	-	2,359	-	4,591	38,873
Due to other funds.....	40	49	106	166	19,676	4	21,608	67,833	109,482
Due to component units.....	-	-	-	-	-	-	15,000	4	15,004
Due to pension trust funds.....	63	15	170	2	1	16	437	1,495	2,199
Due to political subdivisions.....	-	-	-	-	1,185	37,914	34,877	73,246	147,222
Due to other governments.....	13	3	53	1	-	4	44	364	482
Unearned revenue.....	-	1,462	-	-	-	-	8,099	92,361	101,922
Advances from other funds.....	-	-	-	-	-	-	-	19,500	19,500
TOTAL LIABILITIES.....	1,235	1,620	3,047	36,893	116,704	102,148	117,510	386,696	765,853
Deferred inflows of resources:									
TOTAL DEFERRED INFLOWS OF RESOURCES..	-	-	-	-	176,299	-	-	-	176,299
Fund balances:									
Restricted.....	39,990	2,079	100,996	867,620	-	745,134	532,543	1,059,406	3,347,768
Committed.....	-	-	-	-	21,265	-	-	45,721	66,986
Unassigned deficit.....	-	-	-	-	-	-	-	(9,481)	(9,481)
TOTAL FUND BALANCES.....	39,990	2,079	100,996	867,620	21,265	745,134	532,543	1,095,646	3,405,273
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 41,225	\$ 3,699	\$ 104,043	\$ 904,513	\$ 314,268	\$ 847,282	\$ 650,053	\$ 1,482,342	\$ 4,347,425

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds
Nonmajor Governmental Funds

Special Revenue Funds
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Budgeted Funds							Total	
	Banking	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming		Other
REVENUES:									
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 488,632	\$ 1,303,082	\$ 89,525	\$ 1,881,239
Licenses and fees.....	8,294	2,381	3	5,818	-	293,930	88,855	877,157	1,276,438
Intergovernmental.....	-	-	-	-	208,457	450,004	23,167	194,813	876,441
Charges for sales and services.....	22,735	-	72,273	-	17,389	-	-	136,175	248,572
Investment income.....	1,135	47	-	30,712	1,833	17,746	6,169	36,947	94,589
Other.....	2,036	-	126	173	350,009	-	-	14,628	366,972
TOTAL REVENUES	34,200	2,428	72,402	36,703	577,688	1,250,312	1,421,273	1,349,245	4,744,251
EXPENDITURES:									
Current:									
Direction and supportive services.....	-	-	-	-	-	-	427,125	708	427,833
Protection of persons and property.....	21,786	2,539	-	22,485	-	-	13,967	672,703	733,480
Health and human services.....	-	-	61,108	-	672,633	-	397	4,777	738,915
Public education.....	-	-	-	-	-	-	619,300	199	619,499
Recreation and cultural enrichment.....	-	-	-	-	-	-	10,095	177,775	187,870
Economic development.....	-	-	166	-	3,276	-	45,187	214,608	263,237
Transportation.....	-	-	-	-	-	1,164,937	-	32,095	1,197,032
Capital outlay.....	-	-	-	-	-	8,067	-	22,745	30,812
TOTAL EXPENDITURES	21,786	2,539	61,274	22,485	675,909	1,173,004	1,116,071	1,125,610	4,198,678
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,414	(111)	11,128	14,218	(98,221)	77,308	305,202	223,635	545,573
OTHER FINANCING SOURCES (USES):									
Transfers in.....	-	-	2,751	-	-	117,946	-	188,933	309,630
Transfers out.....	(21,000)	-	-	-	-	(30,000)	(324,933)	(313,944)	(689,877)
NET OTHER FINANCING SOURCES (USES)	(21,000)	-	2,751	-	-	87,946	(324,933)	(125,011)	(380,247)
NET CHANGE IN FUND BALANCES	(8,586)	(111)	13,879	14,218	(98,221)	165,254	(19,731)	98,624	165,326
FUND BALANCES, JULY 1, 2017	48,576	2,190	87,117	853,402	119,486	579,880	552,274	997,022	3,239,947
FUND BALANCES, JUNE 30, 2018	\$ 39,990	\$ 2,079	\$ 100,996	\$ 867,620	\$ 21,265	\$ 745,134	\$ 532,543	\$ 1,095,646	\$ 3,405,273

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Banking
 For the Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 27,124	\$ 1,872	\$ 28,996	\$ 950	\$ 29,946
Fines, penalties and interest.....	400	50	450	359	809
Investment income.....	428	255	683	164	847
Miscellaneous.....	-	26	26	(26)	-
TOTAL REVENUES.....	<u>27,952</u>	<u>2,203</u>	<u>30,155</u>	<u>1,447</u>	<u>31,602</u>
EXPENDITURES:					
State Programs.....	46,235	-	46,235	-	46,235
REVENUES OVER (UNDER) EXPENDITURES.....	<u>(18,283)</u>	<u>2,203</u>	<u>(16,080)</u>	<u>1,447</u>	<u>(14,633)</u>
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	4,463	4,463	-	4,463
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	<u>(18,283)</u>	<u>6,666</u>	<u>(11,617)</u>	<u>1,447</u>	<u>(10,170)</u>
FUND BALANCE (BUDGETARY BASIS), JUNE 30, 2017.....	20,423	-	20,423	-	20,423
FUND BALANCE (BUDGETARY BASIS), JUNE 30, 2018.....	<u>\$ 2,140</u>	<u>\$ 6,666</u>	<u>\$ 8,806</u>	<u>\$ 1,447</u>	<u>\$ 10,253</u>

Budgetary Compliance

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Banking Department for the fiscal year ended June 30, 2018 and is available at the following web address:
<http://www.budget.pa.gov/Pages/default.aspx> (At the website, click on Publications & Reports, then June 2018.)

Traceability to the "Status of Appropriations" Column Totals	Special Funds "Status of Appropriations" Report Page Reference	
Total State Programs-Actual (Budgetary Basis) Expenditures		
Appropriations (Column A).....	245	\$ 46,235
plus Actual Augmentations (Column C).....	245	-
less Lapses (Column D).....	245	-
TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures		<u>\$ 46,235</u>

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Banking Department Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources under expenditures (from Actual column above).....	<u>\$ (10,170)</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(1,865)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>3,449</u>
Net adjustments.....	<u>1,584</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ (8,586)</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 205 to 207 are an integral part of this schedule. -

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Milk Marketing
 For the Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 2,431	\$ -	\$ 2,431	\$ (53)	\$ 2,378
Fines, penalties and interest.....	10	-	10	(7)	3
Investment income.....	24	18	42	2	44
TOTAL REVENUES.....	<u>2,465</u>	<u>18</u>	<u>2,483</u>	<u>(58)</u>	<u>2,425</u>
EXPENDITURES:					
State programs.....	2,840	-	2,840	-	2,840
REVENUES OVER (UNDER) EXPENDITURES.....	<u>(375)</u>	<u>18</u>	<u>(357)</u>	<u>(58)</u>	<u>(415)</u>
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	240	240	-	240
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	<u>(375)</u>	<u>258</u>	<u>(117)</u>	<u>(58)</u>	<u>(175)</u>
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2017.....	1,947	-	1,947	-	1,947
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2018.....	<u>\$ 1,572</u>	<u>\$ 258</u>	<u>\$ 1,830</u>	<u>\$ (58)</u>	<u>\$ 1,772</u>

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Milk Marketing Fund for the fiscal year ended June 30, 2018 and is available at the following web address:
<http://www.budget.pa.gov/Pages/default.aspx> (At the website, click on Publications & Reports, then June 2018.)

Total Actual (Budgetary Basis) Expenditures of \$2,840 are traceable from page 249, Column A 'Appropriations' in the June 30, 2018 "Status of Appropriations" (Special Funds).

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Milk Marketing Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	<u>\$ (175)</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(237)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>301</u>
Net adjustments.....	<u>64</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ (111)</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants, and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 205 to 207 are an integral part of this schedule. -

Commonwealth of Pennsylvania

Budgetary Comparison Schedule

Budgeted Nonmajor Funds

Special Revenue Fund-Workers' Compensation Administration

For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 78,000	\$ 356	\$ 78,356	\$ (320)	\$ 78,036
Fines, penalties and interest.....	25	-	25	(23)	2
Departmental services.....	300	-	300	(52)	248
Miscellaneous.....	470	(459)	11	116	127
TOTAL REVENUES.....	<u>78,795</u>	<u>(103)</u>	<u>78,692</u>	<u>(279)</u>	<u>78,413</u>
EXPENDITURES:					
State programs.....	86,156	-	86,156	(52)	86,104
REVENUES OVER (UNDER) EXPENDITURES.....	<u>(7,361)</u>	<u>(103)</u>	<u>(7,464)</u>	<u>(227)</u>	<u>(7,691)</u>
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	13,965	13,965	-	13,965
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	<u>(7,361)</u>	<u>13,862</u>	<u>6,501</u>	<u>(227)</u>	<u>6,274</u>
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2017 RESTATED.....	60,961	-	60,961	-	60,961
FUND BALANCE					
(BUDGETARY BASIS), JUNE 30, 2018.....	<u>\$ 53,600</u>	<u>\$ 13,862</u>	<u>\$ 67,462</u>	<u>\$ (227)</u>	<u>\$ 67,235</u>

Budgetary Compliance

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Workers' Compensation Administration Fund for the fiscal year ended June 30, 2018 and is available at the following web address:
<http://www.budget.pa.gov/Pages/default.aspx>(At the website, click on Publications & Reports, then June 2018.)

Traceability to the " Status of Appropriations " Column Totals	<i>Special Funds "Status of Appropriations" Report Page Reference</i>	
Total State Programs-Actual (Budgetary Basis) Expenditures		
Appropriations (Column A).....	340	\$ 85,856
plus Actual Augmentations (Column C).....	340	523
less Restricted Revenue (Column C).....	339	275
less Lapses (Column D).....	340	-
TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures		<u>\$ 86,104</u>

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Workers' Compensation Administration Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources under expenditures (from Actual column above).....	\$ 6,274
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(17,225)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	24,830
Net adjustments.....	7,605
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 13,879</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants, and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 205 to 207 are an integral part of this schedule. -

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Debt Service Funds

**DEBT SERVICE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Debt service funds account for the accumulation of resources, principally from transfers from other Funds, for the payment of general long-term debt principal and interest.

Pennsylvania Infrastructure Investment Authority Redemption Fund — to account for the payment of principal and interest on bonds issued for loans to local water companies for the repair, construction, extension, and improvement of water supply systems, dams, port facilities, and water control systems. Funding consists of transfers from the **General Fund** and the Pennsylvania Infrastructure Investment Authority and investment income.

Capital Debt Fund — to account for the payment of principal and interest related to general obligation bonds issued for capital projects authorized by Capital Budget Acts. Funding consists of transfers from the **General Fund** and the **Motor License Fund**, facility rental, and investment income.

Growing Greener Bond Sinking Fund — payments for principal and interest for the Growing Greener Bond Fund are made from this Fund. Funding consists of transfers from the Environmental Stewardship Fund.

Water and Sewer Systems Assistance Bond Sinking Fund — payments to redeem or pay interest on bonds issued for the Water and Sewer Systems Assistance Fund are made from this Fund. Funding is requested annually by the Governor and appropriated by the General Assembly.

Water Supply and Wastewater Treatment Sinking Fund — monies in this fund are used to redeem or pay interest on bonds issued for the Water Supply and Wastewater Treatment Fund. Funding consists of monies appropriated annually by the General Assembly.

Other — these funds account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies, compensation to Vietnam conflict veterans, finance of various environmental initiatives, and for water and wastewater infrastructure projects related to economic development. Funding consists of transfers from the **General Fund**, Environmental Stewardship Fund, and investment income. This other category is an aggregation of 14 individual debt service funds.

There are a total of 19 individual debt service funds; all are reported as nonmajor funds.

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

Debt Service Funds
 June 30, 2018

(Amounts in thousands)

	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Growing Greener Bond Sinking	Water and Sewer Systems Assistance Bond Sinking	Water Supply and Wastewater Treatment Sinking	Other	Total
ASSETS							
Temporary investments.....	\$ 7,477	\$ 45,010	\$ -	\$ 533	\$ -	\$ 146	\$ 53,166
Receivables (net):							
Accounts.....	-	3,222	-	-	-	-	3,222
Investment income.....	14	72	1	1	-	-	88
Due from component units.....	332	-	-	9	-	-	341
TOTAL ASSETS.....	\$ 7,823	\$ 48,304	\$ 1	\$ 543	\$ -	\$ 146	\$ 56,817
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities.....	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1
Unearned revenue.....	-	3,222	-	-	-	-	3,222
TOTAL LIABILITIES.....	-	3,223	-	-	-	-	3,223
Fund balances:							
Committed.....	7,823	45,081	1	543	-	146	53,594
TOTAL LIABILITIES AND FUND BALANCES....	\$ 7,823	\$ 48,304	\$ 1	\$ 543	\$ -	\$ 146	\$ 56,817

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Debt Service Funds
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Growing Greener Bond Sinking	Water and Sewer Systems Assistance Bond Sinking	Water Supply and Wastewater Treatment Sinking	Other	Total
REVENUES:							
Intergovernmental.....	\$ -	\$ 26,954	\$ -	\$ 9	\$ -	\$ -	\$ 26,963
Investment income.....	97	311	1	1	-	-	410
Other.....	13,830	-	-	-	-	1	13,831
TOTAL REVENUES	13,927	27,265	1	10	-	1	41,204
EXPENDITURES:							
Debt service:							
Principal retirement.....	4,880	692,093	13,267	8,860	5,620	-	724,720
Interest and fiscal charges.....	4,276	507,929	8,071	13,399	2,264	-	535,939
TOTAL EXPENDITURES	9,156	1,200,022	21,338	22,259	7,884	-	1,260,659
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,771	(1,172,757)	(21,337)	(22,249)	(7,884)	1	(1,219,455)
OTHER FINANCING SOURCES (USES):							
Bonds issued.....	-	39,759	858	533	-	-	41,150
Refunding bonds issued.....	-	969,530	-	-	-	-	969,530
Premium on debt issuance.....	-	169,837	-	-	-	-	169,837
Transfers in.....	-	1,171,556	20,480	22,259	7,884	-	1,222,179
Payment to refunded bond escrow agent.....	-	(1,136,887)	-	-	-	-	(1,136,887)
NET OTHER FINANCING SOURCES.....	-	1,213,795	21,338	22,792	7,884	-	1,265,809
NET CHANGE IN FUND BALANCES.....	4,771	41,038	1	543	-	1	46,354
FUND BALANCES, JULY 1, 2017.....	3,052	4,043	-	-	-	145	7,240
FUND BALANCES, JUNE 30, 2018.....	\$ 7,823	\$ 45,081	\$ 1	\$ 543	\$ -	\$ 146	\$ 53,594



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Capital Projects Funds



**CAPITAL PROJECTS FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions or other public organizations.

Capital Facilities Fund — to account for general obligation bond proceeds used to fund capital projects specifically itemized and authorized by Capital Budget Acts. Projects fall within six broad categories: public improvements, public improvement-original furniture and equipment, transportation assistance, redevelopment assistance, flood control and highway projects. Such projects include those of the primary government and also grants to non-primary government recipients.

Keystone Recreation, Park and Conservation Fund — to account for bond proceeds and a percentage of the state realty transfer tax. The amounts are used to acquire, improve and expand Commonwealth and community parks, recreation facilities, historic sites, zoos, public libraries, nature preserves and wildlife habitats and other recreational areas and facilities.

Growing Greener Bond Fund — to account for the proceeds of bonds issued. The money will be used to finance various environmental projects such as watershed protection, mine drainage remediation, advanced energy, flood protection and various capital improvement projects including county environmental initiatives.

Water Supply and Wastewater Treatment Fund — funding for this program is generated from the \$250 million bond issue approved by the electorate in April of 2004. Funds are allocated to the **Commonwealth Financing Authority** and the Pennsylvania Infrastructure Investment Authority (PENNVEST) to be used for grants and loans for new and existing water supply and wastewater system projects in the Commonwealth.

Public Transportation Assistance Fund — This fund was established to help provide for the capital asset maintenance and certain other transportation needs of the Commonwealth's transit entities. Act 44 of 2007 revised the purpose of this fund by transferring programs to the new Public Transportation Trust Fund.

Land and Water Development Fund — to account for the proceeds of bonds issued for pollution remediation; grants to local governments for sewage treatment facilities; the development of public outdoor recreation areas; and, acquisition and development of park and recreation lands and related studies to determine such needs. The fund is not displayed separately as there was no activity in this fund as of June 30, 2018. There remain bonds authorized but not issued for the fund.

There are a total of six individual capital projects funds; all are reported as nonmajor funds.

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds

Capital Project Funds
 June 30, 2018

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Growing Greener Bond	Water Supply and Wastewater Treatment	Public Transportation Assistance	Total
ASSETS						
Cash.....	\$ -	\$ -	\$ -	\$ -	\$ 27	\$ 27
Temporary investments.....	1,548,836	40,340	20,379	27,482	9,045	1,646,082
Long-term investments.....	-	141,774	-	-	-	141,774
Receivables (net):						
Taxes.....	-	-	-	-	37,438	37,438
Investment income.....	2,819	94	37	48	25	3,023
Due from other funds.....	639	8,279	-	-	9,609	18,527
TOTAL ASSETS.....	\$ 1,552,294	\$ 190,487	\$ 20,416	\$ 27,530	\$ 56,144	\$ 1,846,871
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities.....	\$ 103,588	\$ 6,615	\$ 966	\$ 94	\$ -	\$ 111,263
Securities lending obligations.....	-	1,084	-	-	-	1,084
Due to other funds.....	2,513	177	26	-	997	3,713
Due to pension trust funds.....	-	18	-	-	-	18
Due to political subdivisions.....	62,262	1,136	-	-	7,671	71,069
Due to other governments.....	-	5	-	-	-	5
TOTAL LIABILITIES.....	168,363	9,035	992	94	8,668	187,152
Fund balances:						
Committed.....	1,383,931	181,452	19,424	27,436	47,476	1,659,719
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,552,294	\$ 190,487	\$ 20,416	\$ 27,530	\$ 56,144	\$ 1,846,871

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Capital Projects Funds
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Growing Greener Bond	Water Supply and Wastewater Treatment	Public Transportation Assistance	Total
REVENUES:						
Taxes.....	\$ -	\$ 94,037	\$ -	\$ -	\$ 249,102	\$ 343,139
Charges for sales and services.....	992	-	-	-	-	992
Investment income.....	12,665	6,412	56	421	332	19,886
Other.....	-	-	-	-	1	1
TOTAL REVENUES	13,657	100,449	56	421	249,435	364,018
EXPENDITURES:						
Current:						
Direction and supportive services.....	34,968	257	10	-	-	35,235
Protection of persons and property.....	-	-	341	-	-	341
Public education.....	-	15,642	193	-	-	15,835
Recreation and cultural enrichment.....	-	54,887	241	-	-	55,128
Economic development.....	245,083	-	216	772	-	246,071
Transportation.....	138,648	-	-	-	225,885	364,533
Capital outlay.....	290,397	9,901	6,080	-	-	306,378
Debt service:						
Interest and fiscal charges.....	3,812	-	81	-	-	3,893
TOTAL EXPENDITURES	712,908	80,687	7,162	772	225,885	1,027,414
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	(699,251)	19,762	(7,106)	(351)	23,550	(663,396)
OTHER FINANCING SOURCES (USES):						
Bonds issued.....	1,180,708	-	25,142	-	-	1,205,850
Refunding bonds issued.....	500	-	-	-	-	500
Premium on debt issuance.....	65,922	-	1,404	-	-	67,326
Discount on bonds issued.....	(1,400)	-	(30)	-	-	(1,430)
Transfers in.....	9,558	78	-	-	-	9,636
Transfers out.....	(105,366)	(10,152)	(254)	(199)	(22,040)	(138,011)
NET OTHER FINANCING SOURCES (USES).....	1,149,922	(10,074)	26,262	(199)	(22,040)	1,143,871
NET CHANGE IN FUND BALANCES.....	450,671	9,688	19,156	(550)	1,510	480,475
FUND BALANCES JULY 1, 2017.....	933,260	171,764	268	27,986	45,966	1,179,244
FUND BALANCES JUNE 30, 2018.....	\$ 1,383,931	\$ 181,452	\$ 19,424	\$ 27,436	\$ 47,476	\$ 1,659,719



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Enterprise Funds

**ENTERPRISE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Volunteer Companies Loan Fund — to account for and provide low-interest loans for acquisition and replacement of volunteer fire, ambulance and rescue company equipment and facilities.

Coal and Clay Mine Subsidence Insurance Fund — to account for and provide insurance coverage to homeowners in mining areas against damages resulting from mine subsidence.

Pennsylvania Infrastructure Bank Fund (PIB) — to account for and provide low-interest loans to, or enter into leases with, qualified borrowers to finance the costs of construction and capital transportation projects within Pennsylvania. Acts 165 and 7A of 2004 expanded this program to include financing of rail freight infrastructure. Eligible borrowers include local governments, transportation authorities, economic development agencies, not-for-profit organizations, and private corporations. The interest rate on PIB loans is fixed at one-half the prime lending rate with terms up to 10 years.

Rehabilitation Center Fund — to account for the activities of the Hiram G. Andrews Rehabilitation Center (Center) which offers rehabilitative, educational, vocational, life management, and counseling services, resulting in employment and independence for persons with disabilities. The Center is funded from fees for services rendered.

Philadelphia Regional Port Authority (PRPA) — The PRPA (a blended component unit) operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains funding from the Primary Government. The PRPA also issues revenue bonds to finance its activities.

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, financial and technical assistance to minority business enterprises, and loans and grants provided to attract industrial, manufacturing or research and development enterprises to the Commonwealth. This other category is an aggregation of seven individual enterprise funds.

There are a total of 16 individual enterprise funds. The following funds are reported as Major Funds in the basic financial statements: **Unemployment Compensation, State Workers' Insurance, State Lottery, State Stores, Tuition Payment** and the **Commonwealth Financing Authority** (a blended component unit).

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Commonwealth of Pennsylvania
Combining Statement of Net Position-Nonmajor Proprietary Funds
 Enterprise Funds
 June 30, 2018

(Amounts in thousands)

	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
ASSETS							
Current assets:							
Cash	\$ 195	\$ 276	\$ 530	\$ 87	\$ 34,816	\$ 33	\$ 35,937
Cash with fiscal agents.....	-	-	-	1	-	-	1
Temporary investments.....	25,711	20,819	17,717	7,986	3,711	18,771	94,715
Receivables (net):							
Accounts	-	-	-	25	-	9	34
Investment income.....	45	36	32	16	-	34	163
Interest on loans.....	108	-	566	-	-	21	695
Loans.....	11,725	-	13,286	-	-	600	25,611
Lease rental.....	-	-	-	-	997	-	997
Other	-	-	-	-	3	-	3
Due from other funds	-	-	-	-	2,127	16	2,143
Due from Federal government.....	-	-	-	1	-	1	2
Due from other governments	-	-	-	-	59	-	59
Inventory.....	-	-	-	-	-	4	4
Prepaid expenses.....	-	-	-	-	570	-	570
Other assets.....	-	-	-	-	513	-	513
Total current assets	<u>37,784</u>	<u>21,131</u>	<u>32,131</u>	<u>8,116</u>	<u>42,796</u>	<u>19,489</u>	<u>161,447</u>
Noncurrent assets:							
Restricted cash.....	-	-	-	-	4,549	-	4,549
Long-term investments	35,057	117,887	43,475	-	-	-	196,419
Receivables:							
Loans.....	58,077	-	61,798	-	-	3,046	122,921
Non-depreciable capital assets:							
Land.....	-	-	-	-	220,523	-	220,523
Construction in progress.....	-	-	-	-	55,090	-	55,090
Depreciable or amortizable capital assets:							
Land improvements.....	-	-	-	-	81,705	-	81,705
Buildings and building improvements.....	-	-	-	34,135	385,640	-	419,775
Machinery and equipment.....	-	146	-	3,475	40,231	1,820	45,672
Less: accumulated depreciation and amortization...	-	(87)	-	(28,176)	(235,342)	(1,773)	(265,378)
Net depreciable or amortizable capital assets.....	-	59	-	9,434	272,234	47	281,774
Other assets.....	-	-	-	-	5,588	-	5,588
Total noncurrent assets	<u>93,134</u>	<u>117,946</u>	<u>105,273</u>	<u>9,434</u>	<u>557,984</u>	<u>3,093</u>	<u>886,864</u>
TOTAL ASSETS.....	<u>130,918</u>	<u>139,077</u>	<u>137,404</u>	<u>17,550</u>	<u>600,780</u>	<u>22,582</u>	<u>1,048,311</u>
DEFERRED OUTFLOWS OF RESOURCES							
TOTAL DEFERRED OUTFLOWS OF RESOURCES..	<u>-</u>	<u>729</u>	<u>-</u>	<u>4,830</u>	<u>3,183</u>	<u>487</u>	<u>9,229</u>

Commonwealth of Pennsylvania
Combining Statement of Net Position-Nonmajor Proprietary Funds

Enterprise Funds
 June 30, 2018

(Amounts in thousands)

	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	200	213	103	1,322	7,361	665	9,864
Securities lending obligations.....	268	902	332	-	-	-	1,502
Due to other funds.....	-	27	-	68	1	117	213
Due to pension trust funds.....	-	8	-	61	25	7	101
Due to component units.....	-	23	-	-	-	-	23
Due to political subdivisions.....	-	-	-	28	-	-	28
Due to other governments.....	-	2	-	15	944	1	962
Interest payable.....	-	-	-	-	214	-	214
Unearned revenue.....	73	2,793	37	-	623	-	3,526
Revenue bonds payable.....	-	-	-	-	4,260	-	4,260
Self insurance liabilities.....	-	22	-	133	56	20	231
Compensated absences.....	-	84	-	226	154	41	505
Other postemployment benefit liability.....	-	86	-	668	266	56	1,076
Other liabilities.....	-	-	-	-	189	-	189
Total current liabilities.....	541	4,160	472	2,521	14,093	907	22,694
Non-current liabilities:							
Insurance loss liability.....	-	496	-	-	-	-	496
Revenue bond payable.....	-	-	-	-	8,998	-	8,998
Compensated absences.....	-	359	-	965	659	173	2,156
Self insurance liabilities.....	-	141	-	837	349	126	1,453
Other postemployment benefit liability.....	-	5,595	-	43,608	12,279	3,681	65,163
Net pension liability.....	-	3,624	-	24,380	10,094	2,480	40,578
Other liabilities.....	-	-	-	-	1,898	-	1,898
Total non-current liabilities.....	-	10,215	-	69,790	34,277	6,460	120,742
TOTAL LIABILITIES.....	541	14,375	472	72,311	48,370	7,367	143,436
DEFERRED INFLOWS OF RESOURCES							
TOTAL DEFERRED INFLOWS OF RESOURCES...	-	813	-	6,020	5,258	541	12,632
NET POSITION							
Net investment in capital assets.....	-	59	-	9,434	538,230	47	547,770
Restricted for:							
Transportation.....	-	-	136,932	-	-	-	136,932
Capital projects.....	-	-	-	-	182	-	182
Debt service.....	-	-	-	-	4,224	-	4,224
Economic development.....	-	-	-	-	7,699	5,796	13,495
Emergency support.....	130,377	-	-	-	-	-	130,377
Other purposes.....	-	124,559	-	-	-	9,318	133,877
Unrestricted.....	-	-	-	(65,385)	-	-	(65,385)
TOTAL NET POSITION.....	\$ 130,377	\$ 124,618	\$ 136,932	\$ (55,951)	\$ 550,335	\$ 15,161	\$ 901,472

Commonwealth of Pennsylvania

Combining Statement of Revenues, Expenses, and Changes in Net Position-Nonmajor Proprietary Funds

Enterprise Funds

For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
OPERATING REVENUES:							
Sales and services.....	\$ -	\$ 6,148	\$ 25	\$ -	\$ 15,997	\$ 3,476	\$ 25,646
Interest on loans.....	1,444	-	1,361	-	-	103	2,908
Other.....	-	-	-	-	648	30	678
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	1,444	6,148	1,386	-	16,645	3,609	29,232
Provision for uncollectible accounts.....	(56)	-	340	-	-	(100)	184
NET OPERATING REVENUES.....	1,388	6,148	1,726	-	16,645	3,509	29,416
OPERATING EXPENSES:							
Cost of sales and services.....	260	4,668	7	9,441	9,682	4,167	28,225
Depreciation.....	-	10	-	966	20,665	7	21,648
Other.....	-	-	-	-	4,568	-	4,568
TOTAL OPERATING EXPENSES	260	4,678	7	10,407	34,915	4,174	54,441
OPERATING INCOME (LOSS).....	1,128	1,470	1,719	(10,407)	(18,270)	(665)	(25,025)
NONOPERATING REVENUES (EXPENSES):							
Investment income.....	1,773	5,050	2,037	197	73	289	9,419
Grants and other revenues.....	12	1	-	1,151	-	115	1,279
Other expenses.....	-	-	-	-	(1,508)	-	(1,508)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,785	5,051	2,037	1,348	(1,435)	404	9,190
INCOME (LOSS) BEFORE TRANSFERS.....	2,913	6,521	3,756	(9,059)	(19,705)	(261)	(15,835)
TRANSFERS:							
Transfers in.....	-	-	-	-	91,628	-	91,628
Transfers out.....	-	-	(7,500)	(2,000)	-	-	(9,500)
TRANSFERS, NET.....	-	-	(7,500)	(2,000)	91,628	-	82,128
CHANGE IN NET POSITION.....	2,913	6,521	(3,744)	(11,059)	71,923	(261)	66,293
TOTAL NET POSITION, JULY 1, 2017 (restated)...	127,464	118,097	140,676	(44,892)	478,412	15,422	835,179
TOTAL NET POSITION, JUNE 30, 2018.....	\$ 130,377	\$ 124,618	\$ 136,932	\$ (55,951)	\$ 550,335	\$ 15,161	\$ 901,472

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Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
 Enterprise Funds
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers.....	\$ -	\$ -	\$ -	\$ 75	\$ 15,233	\$ 3,468	\$ 18,776
Receipts from borrowers for fees and loan repayments.....	13,734	-	14,905	-	-	478	29,117
Receipt of premiums.....	-	6,252	-	-	-	-	6,252
Payments to borrowers.....	(10,552)	-	(9,243)	-	-	(1,063)	(20,858)
Payments for vendors, employees and other costs.....	(260)	(4,236)	(7)	(5,029)	(11,073)	(3,825)	(24,430)
Other receipts.....	-	-	-	-	-	29	29
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	2,922	2,016	5,655	(4,954)	4,160	(913)	8,886
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:							
Transfers out.....	-	-	(7,500)	(2,000)	-	-	(9,500)
Grants and other revenues.....	12	1	-	1,192	-	115	1,320
Other payments for non-capital financing uses.....	-	-	-	-	(4,320)	-	(4,320)
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	12	1	(7,500)	(808)	(4,320)	115	(12,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
FINANCING ACTIVITIES:							
Acquisition and construction of capital assets.....	-	-	-	(277)	(75,796)	(35)	(76,108)
Principal payments on other capital debt.....	-	-	-	-	(3,870)	-	(3,870)
Interest payments on other capital debt.....	-	-	-	-	(739)	-	(739)
Transfers in.....	-	-	-	-	95,985	-	95,985
Other receipts for capital and related financing activities.....	-	-	-	-	4,606	-	4,606
Other payments for capital and related financing uses.....	-	-	-	-	(199)	-	(199)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	-	-	(277)	19,987	(35)	19,675
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of investments.....	(12,364)	(8,125)	(13,894)	(17,762)	(9,297)	(4,645)	(66,087)
Sales and maturities of investments.....	8,418	3,170	14,954	23,605	7,151	5,128	62,426
Investment income.....	1,174	3,101	1,311	194	73	273	6,126
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(2,772)	(1,854)	2,371	6,037	(2,073)	756	2,465
NET INCREASE (DECREASE) IN CASH.....	162	163	526	(2)	17,754	(77)	18,526
CASH AT JULY 1, 2017.....	33	113	4	90	21,611	110	21,961
CASH AT JUNE 30, 2018 (including \$4,549 included in restricted assets).....	\$ 195	\$ 276	\$ 530	\$ 88	\$ 39,365	\$ 33	\$ 40,487

Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds

Enterprise Funds
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET							
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss).....	\$ 1,128	\$ 1,470	\$ 1,719	\$ (10,407)	\$ (18,270)	\$ (665)	\$ (25,025)
Depreciation and amortization of capital assets.....	-	10	-	966	20,665	7	21,648
Amortization of other assets.....	-	-	-	-	4,569	-	4,569
Provision for uncollectible accounts.....	56	-	(340)	-	-	100	(184)
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:							
Accounts receivable.....	221	-	770	75	-	9	1,075
Interest on loans receivable.....	1	-	(19)	-	-	(21)	(39)
Loans receivable.....	1,932	-	4,919	-	-	(683)	6,168
Lease rental receivable.....	-	-	-	-	(414)	-	(414)
Due from other funds.....	-	-	-	3,907	-	(2)	3,905
Due from other governments.....	-	-	-	-	37	-	37
Prepaid expenses.....	-	-	-	-	(9)	-	(9)
Other current and noncurrent assets.....	-	-	-	-	(19)	-	(19)
Deferred outflows.....	-	313	-	2,580	1,363	257	4,513
Accounts payable and accrued liabilities.....	(420)	75	(1,388)	(677)	(284)	251	(2,443)
Due to other funds.....	-	13	-	(228)	-	51	(164)
Due to pension trust funds.....	-	2	-	(53)	-	-	(51)
Due to component units.....	-	(25)	-	-	-	-	(25)
Due to other governments.....	-	1	-	-	-	-	1
Unearned revenue.....	4	104	(6)	-	-	-	102
Self insurance liabilities.....	-	39	-	74	(227)	(63)	(177)
Compensated absences.....	-	35	-	(214)	-	21	(158)
Insurance loss liability.....	-	6	-	-	-	-	6
Other postemployment benefit liability.....	-	(468)	-	(3,655)	(735)	(309)	(5,167)
Net pension liability.....	-	(213)	-	(2,237)	(6,019)	(292)	(8,761)
Other current and noncurrent liabilities.....	-	-	-	-	(551)	-	(551)
Deferred inflows.....	-	654	-	4,915	4,054	426	10,049
Total Adjustments.....	1,794	546	3,936	5,453	22,430	(248)	33,911
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ 2,922	\$ 2,016	\$ 5,655	\$ (4,954)	\$ 4,160	\$ (913)	\$ 8,886
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:							
Increase in fair value of investments during the fiscal year.....	\$ 573	\$ 1,926	\$ 710	\$ -	\$ -	\$ -	\$ 3,209
Decrease in investments from changes in securities lending obligations.....	(911)	(3,065)	(1,131)	-	-	-	(5,107)
Increase in investment income receivable.....	26	20	15	4	-	16	81
Disposals of capital assets.....	-	-	-	(8)	(3,695)	-	(3,703)
Amortization of bond premium/discount (net).....	-	-	-	-	(195)	-	(195)
Internal activity elimination for capital financing activities.....	-	-	-	-	(4,541)	-	(4,541)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Internal Service Funds

INTERNAL SERVICE FUNDS DESCRIPTION

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles, and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. This fund is also used to account for all Commonwealth telecommunication activities, which are accounted for by the Governor's Executive Offices. Revenue is derived from reimbursements from Commonwealth agencies that use Fund services or products.

Manufacturing Fund — to account for the manufacture and sale of goods and services by inmates in the correctional institutions to the Department of Corrections, other government agencies, and government-aided organizations.

There are a total of two individual internal service funds.

Commonwealth of Pennsylvania
Combining Statement of Net Position-Nonmajor Proprietary Funds
Internal Service Funds
June 30, 2018

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash.....	\$ 863	\$ 526	\$ 1,389
Temporary investments.....	15,558	15,188	30,746
Receivables (net):			
Accounts.....	39	351	390
Investment income.....	21	24	45
Due from other funds.....	37,315	5,637	42,952
Due from pension trust funds.....	838	3,404	4,242
Due from component units.....	14	3	17
Due from political subdivisions.....	-	31	31
Inventory.....	52	14,480	14,532
Total current assets.....	<u>54,700</u>	<u>39,644</u>	<u>94,344</u>
Noncurrent assets:			
Long-term investments	-	22,789	22,789
Depreciable capital assets:			
Land improvements.....	192	-	192
Buildings and building improvements.....	-	6,254	6,254
Machinery and equipment.....	74,066	38,216	112,282
Less: accumulated depreciation.....	(49,004)	(24,994)	(73,998)
Net depreciable capital assets.....	<u>25,254</u>	<u>19,476</u>	<u>44,730</u>
Total noncurrent assets.....	<u>25,254</u>	<u>42,265</u>	<u>67,519</u>
TOTAL ASSETS.....	<u>79,954</u>	<u>81,909</u>	<u>161,863</u>
DEFERRED OUTFLOWS OF RESOURCES			
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,243</u>	<u>6,485</u>	<u>9,728</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities.....	51,086	5,196	56,282
Securities lending obligations.....	-	174	174
Due to other funds.....	4,311	354	4,665
Due to pension trust funds.....	78	163	241
Due to component units.....	3	-	3
Due to political subdivisions.....	3	3	6
Due to other governments.....	17	37	54
Capital lease/installment purchase obligations.....	883	-	883
Self insurance liabilities.....	114	444	558
Compensated absences.....	165	392	557
Other postemployment benefit liability.....	457	654	1,111
Total current liabilities.....	<u>57,117</u>	<u>7,417</u>	<u>64,534</u>
Non-current liabilities:			
Installment purchase.....	2,165	-	2,165
Compensated absences.....	703	1,672	2,375
Self insurance liabilities.....	718	2,790	3,508
Other postemployment benefit liability.....	29,806	42,681	72,487
Net pension liability.....	15,940	35,942	51,882
Total non-current liabilities.....	<u>49,332</u>	<u>83,085</u>	<u>132,417</u>
TOTAL LIABILITIES.....	<u>106,449</u>	<u>90,502</u>	<u>196,951</u>
DEFERRED INFLOWS OF RESOURCES			
TOTAL DEFERRED INFLOWS OF RESOURCES...	<u>4,057</u>	<u>6,857</u>	<u>10,914</u>
NET POSITION			
Net investment in capital assets.....	22,206	19,476	41,682
Unrestricted.....	(49,515)	(28,441)	(77,956)
TOTAL NET POSITION.....	<u>\$ (27,309)</u>	<u>\$ (8,965)</u>	<u>\$ (36,274)</u>

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenses, and Changes in
Net Position-Nonmajor Proprietary Funds

Internal Service Funds
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 17,518	\$ 80,688	\$ 98,206
Other.....	615	-	615
NET OPERATING REVENUES.....	<u>18,133</u>	<u>80,688</u>	<u>98,821</u>
OPERATING EXPENSES:			
Cost of sales and services.....	6,956	81,077	88,033
Depreciation.....	10,912	1,717	12,629
TOTAL OPERATING EXPENSES	<u>17,868</u>	<u>82,794</u>	<u>100,662</u>
OPERATING GAIN (LOSS).....	<u>265</u>	<u>(2,106)</u>	<u>(1,841)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	130	1,229	1,359
(Interest expense).....	(89)	-	(89)
Other expenses.....	(211)	-	(211)
TOTAL NONOPERATING REVENUES (EXPENSES), NET....	<u>(170)</u>	<u>1,229</u>	<u>1,059</u>
CHANGE IN NET POSITION.....	95	(877)	(782)
TOTAL NET POSITION, JULY 1, 2017 (restated).....	<u>(27,404)</u>	<u>(8,088)</u>	<u>(35,492)</u>
TOTAL NET POSITION, JUNE 30, 2018.....	<u>\$ (27,309)</u>	<u>\$ (8,965)</u>	<u>\$ (36,274)</u>

Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
Internal Service Funds
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers.....	\$ (4,059)	\$ 77,469	\$ 73,410
Payments for vendors, employees and other costs.....	14,244	(75,675)	(61,431)
Other receipts.....	615	-	615
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	10,800	1,794	12,594
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(13,636)	(2,166)	(15,802)
Proceeds from disposal of capital assets.....	3,723	-	3,723
Capital lease/installment purchase payments.....	1,415	-	1,415
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES...	(8,498)	(2,166)	(10,664)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(256,755)	(58,030)	(314,785)
Sales and maturities of investments.....	250,759	57,526	308,285
Investment income.....	117	847	964
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(5,879)	343	(5,536)
NET DECREASE IN CASH.....	(3,577)	(29)	(3,606)
CASH AT JULY 1, 2017.....	4,440	555	4,995
CASH AT JUNE 30, 2018.....	\$ 863	\$ 526	\$ 1,389

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating gain.....	\$ 265	\$ (2,106)	\$ (1,841)
Depreciation and amortization of capital assets.....	10,912	1,717	12,629
Other adjustments.....	(3,723)	-	(3,723)
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:			
Accounts receivable.....	(10)	24	14
Due from other funds.....	(18,088)	(3,523)	(21,611)
Due from pension trust funds.....	186	284	470
Due from component units.....	58	3	61
Due from political subdivisions.....	-	(7)	(7)
Inventory.....	(11)	1,808	1,797
Deferred outflows.....	1,712	3,665	5,377
Accounts payable and accrued liabilities.....	18,865	1,315	20,180
Due to other funds.....	1,601	17	1,618
Due to pension trust funds.....	3	(150)	(147)
Due to component units.....	(1)	-	(1)
Due to political subdivisions.....	1	3	4
Due to other governments.....	(4)	-	(4)
Self insurance liabilities.....	(81)	65	(16)
Compensated absences.....	49	95	144
Other postemployment benefit liability.....	(2,498)	(3,577)	(6,075)
Net pension liability.....	(1,759)	(3,077)	(4,836)
Deferred inflows.....	3,323	5,238	8,561
Total Adjustments.....	10,535	3,900	14,435
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	\$ 10,800	\$ 1,794	\$ 12,594

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Increase in fair value of investments during the fiscal year.....	\$ -	\$ 373	\$ 373
Decrease in investments from changes in securities lending obligations.....	-	(593)	(593)
Increase in investment income receivable.....	13	9	22
Capital assets acquired through installment purchases.....	1,415	-	1,415
Disposals of capital assets.....	(7,195)	(98)	(7,293)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Pension (and Other Employee Benefit) Trust Funds

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS DESCRIPTION

Pension (and other employee benefit) trust funds account for assets that are required to be held in trust for the members and beneficiaries of pension plans and other postemployment benefit plans and are held by the Commonwealth in a trustee capacity.

PENSION TRUST FUNDS

State Employees' Retirement System (SERS) — a component unit organization reported as a pension trust fund that administers and provides retirement, disability, and death benefits to members of the SERS and their beneficiaries.

Deferred Compensation Fund — a pension trust fund administered by the SERS that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

Public School Employees' Retirement System (PSERS) — a component unit organization that administers and provides pension benefits to public school employees in Pennsylvania.

Public School Employees' Retirement System Defined Contribution Fund — a component unit organization established by Act 5 of 2017 and administered by the PSERS to provide defined contribution retirement benefits to new public school employees effective July 1, 2019.

OTHER EMPLOYEE BENEFIT TRUST FUNDS

Public School Employees' Retirement System-Postemployment Healthcare — a component unit organization reported as an employee benefit trust fund that administers and provides healthcare, disability, and death benefits to members and their beneficiaries.

Other Postemployment Benefits (REHP) — an employee benefit trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing postemployment healthcare benefits to retired employees.

Other Postemployment Benefits (RPSPP) — an employee benefit trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing postemployment healthcare benefits to retired Pennsylvania State Police.

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Commonwealth of Pennsylvania
Combining Statement of Fiduciary Net Position
Pension (and Other Employee Benefit) Trust Funds
June 30, 2018

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust							
	State Employees' Retirement System (December 31, 2017)	Deferred Compensation (December 31, 2017)	Public School Employees' Retirement System			Other Postemployment Benefits		Total
			Pension	Defined Contribution	Postemployment Healthcare	Retired Employees Health Program	Retired Pennsylvania State Police Program	
ASSETS								
Cash.....	\$ -	\$ 5,662	\$ 253,614	\$ -	\$ -	\$ -	\$ -	\$ 259,276
Temporary investments.....	-	66,450	-	-	-	21,077	6,057	93,584
Long-term investments.....	-	113,542	-	-	-	359,109	103,187	575,838
Short-term funds.....	1,402,365	66,815	5,584,103	6,735	182,798	-	-	7,242,816
Corporate obligations.....	896,679	169,246	1,985,513	-	-	-	-	3,051,438
Collective trust funds.....	307,545	374,316	14,011,193	-	-	-	-	14,693,054
Real estate.....	2,204,129	-	5,039,237	-	-	-	-	7,243,366
Alternative.....	5,090,262	-	12,609,975	-	-	-	-	17,700,237
Securities lending collateral.....	391,449	21,518	2,980,119	-	-	-	-	3,393,086
Asset-backed securities.....	757,763	91,287	1,031,274	-	-	-	-	1,880,324
Domestic equities.....	14,939,126	1,651,838	7,159,479	-	-	-	-	23,750,443
International equities.....	1,471,433	210,204	5,673,188	-	-	-	-	7,354,825
International private debt securities.....	-	10,127	-	-	-	-	-	10,127
International public debt securities.....	258,701	-	353,011	-	-	-	-	611,712
Mortgage-backed securities.....	-	218,525	812,447	-	-	-	-	1,030,972
Private placements.....	451,270	5,622	-	-	-	-	-	456,892
Repurchase agreements.....	-	-	-	-	146,404	-	-	146,404
U.S. Treasury obligations.....	1,855,214	448,749	1,053,358	-	-	-	-	3,357,321
U.S. government agency debt securities.....	66,718	59,708	-	-	-	-	-	126,426
Receivables (net):								
Investment income.....	60,381	97	192,262	53	281	-	-	253,074
Interest on notes and loans.....	-	-	-	-	-	786	226	1,012
Pension contributions.....	-	5,325	1,548,185	-	34,359	-	-	1,587,869
Investment sale proceeds.....	292,823	-	362,317	-	-	-	-	655,140
Other.....	1,956	150	199	-	29,864	-	-	32,169
Due from other funds.....	11,571	-	6,659	-	173	-	-	18,403
Due from pension trust funds.....	2,983	-	762	-	-	-	-	3,745
Due from component units.....	97,786	-	-	-	-	-	-	97,786
Due from political subdivisions.....	45,185	-	-	-	-	-	-	45,185
Due from other governments.....	-	-	-	-	32,073	-	-	32,073
Depreciable or amortizable capital assets:								
Machinery and equipment.....	-	-	12,984	-	-	-	-	12,984
Intangible assets.....	-	-	42,286	-	-	-	-	42,286
Less: accumulated depreciation and amortization.....	-	-	(31,840)	-	-	-	-	(31,840)
Net depreciable or amortizable capital assets.....	-	-	23,430	-	-	-	-	23,430
TOTAL ASSETS.....	30,605,339	3,519,181	60,680,325	6,788	425,952	380,972	109,470	95,728,027
DEFERRED OUTFLOWS OF RESOURCES								
TOTAL DEFERRED OUTFLOWS OF RESOURCES....	-	-	14,345	-	-	-	-	14,345

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Net Position
Pension (and Other Employee Benefit) Trust Funds
June 30, 2018

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust							Total
	State Employees' Retirement System (December 31, 2017)	Deferred Compensation (December 31, 2017)	Public School Employees' Retirement System			Other Postemployment Benefits		
			Pension	Defined Contribution	Postemployment Healthcare	Retired Employees Health Program	Retired Pennsylvania State Police Program	
LIABILITIES								
Liabilities:								
Accounts payable and accrued liabilities.....	47,669	2,108	81,064	29	2,854	26,047	7,056	166,827
Investment purchases payable.....	761,179	-	537,857	-	4,041	-	-	1,303,077
Securities lending obligations.....	391,449	21,518	2,980,119	-	-	21,077	6,057	3,420,220
Due to other funds.....	-	14	499	-	-	-	-	513
Due to pension trust funds.....	-	211	1,249	-	-	-	-	1,460
Other postemployment benefit liability.....	-	-	76,300	-	-	-	-	76,300
Net pension liability.....	-	-	60,166	-	-	-	-	60,166
Other liabilities.....	-	-	582,430	-	60,803	-	-	643,233
TOTAL LIABILITIES.....	1,200,297	23,851	4,319,684	29	67,698	47,124	13,113	5,671,796
DEFERRED INFLOWS OF RESOURCES								
TOTAL DEFERRED INFLOWS OF RESOURCES.....	-	-	11,272	-	-	-	-	11,272
NET POSITION								
Restricted and held in trust for:								
Pension benefits.....	29,405,042	-	56,363,714	6,759	-	-	-	85,775,515
Postemployment healthcare benefits.....	-	-	-	-	358,254	333,848	96,357	788,459
Employee salary deferrals.....	-	3,495,330	-	-	-	-	-	3,495,330
TOTAL NET POSITION.....	\$ 29,405,042	\$ 3,495,330	\$ 56,363,714	\$ 6,759	\$ 358,254	\$ 333,848	\$ 96,357	\$ 90,059,304

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Position
Pension (and Other Employee Benefit) Trust Funds
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust							
	State Employees' Retirement System (December 31, 2017)	Deferred Compensation (December 31, 2017)	Public School Employees' Retirement System			Other Postemployment Benefits		Total
			Pension	Defined Contribution	Postemployment Healthcare	Retired Employees Health Program	Retired Pennsylvania State Police Program	
ADDITIONS:								
Contributions:								
Pension:								
Employer.....	\$ 1,897,404	\$ -	\$ 4,249,611	\$ -	\$ 175,983	\$ 541,796	\$ 132,814	\$ 6,997,608
Employee.....	383,359	135,357	1,026,375	-	359,896	-	-	1,904,987
Transfer in from other plans.....	-	63,092	-	6,801	-	50,000	1,000	120,893
Total contributions.....	2,280,763	198,449	5,275,986	6,801	535,879	591,796	133,814	9,023,488
Investment income:								
Net increase/(decrease) in fair value of investments.....	3,710,739	348,266	3,710,566	-	1	19,286	6,144	7,795,002
Interest income.....	126,728	25,629	283,999	53	3,473	353	112	440,347
Dividend income.....	260,013	-	321,547	-	-	7,849	2,501	591,910
Rental and other income.....	99,246	-	853,244	-	-	285	91	952,866
Total investment activity income.....	4,196,726	373,895	5,169,356	53	3,474	27,773	8,848	9,780,125
Less: investment expenses								
Investment activity expense.....	(135,079)	(3,632)	(467,653)	-	(59)	-	-	(606,423)
Net investment earnings.....	4,061,647	370,263	4,701,703	53	3,415	27,773	8,848	9,173,702
Securities lending activities:								
Income.....	4,883	19	38,506	-	-	-	-	43,408
Expenses.....	(475)	(1)	(26,051)	-	-	-	-	(26,527)
Total securities lending income.....	4,408	18	12,455	-	-	-	-	16,881
Total net investment income.....	4,066,055	370,281	4,714,158	53	3,415	27,773	8,848	9,190,583
TOTAL ADDITIONS.....	6,346,818	568,730	9,990,144	6,854	539,294	619,569	142,662	18,214,071
DEDUCTIONS:								
Benefit payments.....	3,287,923	98,397	6,635,265	-	488,195	562,496	139,363	11,211,639
Refunds of contributions.....	15,620	-	19,881	-	-	-	-	35,501
Transfers to other plans.....	-	136,725	-	-	-	-	-	136,725
Administrative expenses.....	26,122	376	46,544	95	44,455	5,654	608	123,854
Other expenses.....	-	4,224	-	-	-	-	-	4,224
TOTAL DEDUCTIONS.....	3,329,665	239,722	6,701,690	95	532,650	568,150	139,971	11,511,943
CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:								
Pension benefits.....	3,017,153	-	3,288,454	6,759	-	-	-	6,312,366
Postemployment healthcare benefits.....	-	-	-	-	6,644	51,419	2,691	60,754
Employee salary deferrals.....	-	329,008	-	-	-	-	-	329,008
TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST.....	3,017,153	329,008	3,288,454	6,759	6,644	51,419	2,691	6,702,128
Net position, July 1, 2017 (restated).....	26,387,889	3,166,322	53,075,260	-	351,610	282,429	93,666	83,357,176
Net position, June 30, 2018.....	\$ 29,405,042	\$ 3,495,330	\$ 56,363,714	\$ 6,759	\$ 358,254	\$ 333,848	\$ 96,357	\$ 90,059,304



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Private-Purpose Trust Funds

**PRIVATE-PURPOSE TRUST FUNDS
DESCRIPTION**

Private-purpose trust funds are used to report assets held in a trustee capacity where the principal and income benefit individuals, private organizations or other governments.

Tuition Account Investment Program – provides for the advanced purchase of tuition credits for beneficiaries who will attend institutions of higher learning. Contributors enter into a Tuition Account Program Investment contract that authorizes the Treasury to invest funds to pay for future tuition expenses.

Monetary Penalty Endowments Trust – accounts for monetary penalties assessed to higher education institutions. Fund expenditures are made by the Pennsylvania Commission on Crime and Delinquency to support abuse treatment and prevention programs within the Commonwealth.

There are two private-purpose trust funds.

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2018

(Amounts in thousands)

	Tuition Account Investment Program	Monetary Penalty Endowments Trust	Total
ASSETS			
Cash.....	\$ 4,137	\$ -	\$ 4,137
Temporary investments.....	-	3,361	3,361
Long-term investments.....	2,727,981	46,909	2,774,890
Receivables (net):			
Accounts.....	294	-	294
Investment income.....	-	5	5
TOTAL ASSETS.....	2,732,412	50,275	2,782,687
LIABILITIES			
Accounts payable and accrued liabilities.....	1,507	315	1,822
Investment purchases payable.....	251	-	251
Securities lending obligations.....	-	359	359
Due to political subdivisions.....	-	192	192
TOTAL LIABILITIES.....	1,758	866	2,624
NET POSITION			
Restricted and held in trust for:			
Tuition Account Program participants.....	2,730,654	-	2,730,654
Other.....	-	49,409	49,409
TOTAL NET POSITION.....	\$ 2,730,654	\$ 49,409	\$ 2,780,063

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Tuition Account Investment Program	Monetary Penalty Endowments Trust	Total
ADDITIONS:			
Investment income:			
Net increase in fair value of investments.....	\$ 105,272	\$ -	\$ 105,272
Interest income.....	68,572	1,952	70,524
Total investment activity income.....	<u>173,844</u>	<u>1,952</u>	<u>175,796</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased/redeemed (net).....	162,146	-	162,146
Net increase in net assets from share transactions.....	<u>162,146</u>	<u>-</u>	<u>162,146</u>
TOTAL ADDITIONS.....	<u>335,990</u>	<u>1,952</u>	<u>337,942</u>
DEDUCTIONS:			
Administrative expenses.....	7,181	-	7,181
Other expenses.....	-	2,233	2,233
TOTAL DEDUCTIONS.....	<u>7,181</u>	<u>2,233</u>	<u>9,414</u>
CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:			
Tuition Account Investment Program participants.....	328,809	-	328,809
Other.....	-	(281)	(281)
TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST.....	<u>328,809</u>	<u>(281)</u>	<u>328,528</u>
Net position, July 1, 2017.....	2,401,845	49,690	2,451,535
Net position, June 30, 2018.....	<u>\$ 2,730,654</u>	<u>\$ 49,409</u>	<u>\$ 2,780,063</u>



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Agency Funds

AGENCY FUNDS DESCRIPTION

Agency funds account for assets held by the Commonwealth as an agent for individuals, private organizations, or other governmental units.

Statutory Liquidator Fund — to convert the remaining assets of insolvent insurance companies to cash for remittance to creditors, policyholders, and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders, and stockholders.

Medical Care Availability and Reduction of Error Fund — to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies.

Allegheny Regional Asset District Sales and Use Tax Fund — to collect an additional 1% sales tax remitted by Allegheny County business entities to the Department of Revenue, as established per Act 1993-77. On a monthly basis, the Treasury Department distributes the fund balance to qualified County entities in accordance with the requirements of the Act.

Underground Storage Tank Indemnification Fund — to collect assessments and remit claim payments to owners and operators of underground storage tanks who incur a liability for taking corrective action, for bodily injury or for property damage caused by a release from underground storage tanks.

Municipal Pension Aid Fund — to collect a 2% premium tax received from foreign (out-of-state) casualty insurance companies conducting business in the Commonwealth, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

Fire Insurance Tax Fund — to collect a 2% premium tax received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth, which are remitted to local governments. The municipalities must pay these monies to the relief, pension, or retirement fund of their recognized fire fighting organization.

Agency Custodial Accounts — to account for the assets of patients, residents, inmates and other non-Commonwealth funds for which the Commonwealth is the account custodian.

Other — to collect and administer funds from various sources for distribution to other state and local governments or the federal government. This other category is an aggregation of 10 individual agency funds.

There are a total of 17 individual agency funds.

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 June 30, 2018

(Amounts in thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodial Accounts	Other	Total Agency Funds
ASSETS									
Cash.....	\$ -	\$ 176	\$ 110	\$ 2,039	\$ 29	\$ -	\$ 12,049	\$ 705	\$ 15,108
Cash with fiscal agents.....	16,932	-	-	-	-	-	-	-	16,932
Temporary investments.....	148,130	118,047	16,626	42,569	305,390	77,883	25,580	47,522	781,747
Long-term investments.....	2,228,124	-	-	260,756	-	-	-	-	2,488,880
Receivables (net):									
Taxes.....	-	-	18,476	-	-	-	-	46,955	65,431
Accounts.....	4,916	-	1	16,161	89	-	6,147	265	27,579
Investment income.....	8,471	205	19	935	552	-	-	67	10,249
Investment sale proceeds.....	1	-	-	-	-	-	-	-	1
Advances to other funds.....	-	-	-	67,500	-	-	-	-	67,500
Other assets.....	3,907,864	-	-	-	-	-	945	-	3,908,809
TOTAL ASSETS.....	\$ 6,314,438	\$ 118,428	\$ 35,232	\$ 389,960	\$ 306,060	\$ 77,883	\$ 44,721	\$ 95,514	\$ 7,382,236
LIABILITIES									
Accounts payable and accrued liabilities.....	\$ -	\$ 102,119	\$ 183	\$ 18,730	\$ 10,963	\$ 9,565	\$ 15,303	\$ 201	\$ 157,064
Investment purchases payable.....	16,233	-	-	162	-	-	-	-	16,395
Securities lending obligations.....	614	-	-	27,361	-	-	-	-	27,975
Due to political subdivisions.....	-	-	35,049	-	295,097	68,318	-	90,943	489,407
Due to other governments.....	-	7	-	1	-	-	-	-	8
Other liabilities.....	6,297,591	16,302	-	343,706	-	-	29,418	4,370	6,691,387
TOTAL LIABILITIES.....	\$ 6,314,438	\$ 118,428	\$ 35,232	\$ 389,960	\$ 306,060	\$ 77,883	\$ 44,721	\$ 95,514	\$ 7,382,236

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
STATUTORY LIQUIDATOR FUND				
<u>ASSETS</u>				
Cash with fiscal agents.....	\$ 75,152	\$ 49,004	\$ 107,224	\$ 16,932
Temporary investments.....	136,900	30,344	19,114	148,130
Long-term investments.....	2,664,950	3,248,021	3,684,847	2,228,124
Receivables (net):				
Accounts.....	25,621	5,279	25,984	4,916
Investment income.....	9,032	36,440	37,001	8,471
Investment sale proceeds.....	2,754	1	2,754	1
Other assets.....	4,562,710	225,072	879,918	3,907,864
TOTAL ASSETS	<u>\$ 7,477,119</u>	<u>\$ 3,594,161</u>	<u>\$ 4,756,842</u>	<u>\$ 6,314,438</u>
<u>LIABILITIES</u>				
Investment purchases payable.....	\$ 3,032	\$ 36,319	\$ 23,118	\$ 16,233
Securities lending obligations.....	2,703	614	2,703	614
Other liabilities.....	7,471,384	3,557,228	4,731,021	6,297,591
TOTAL LIABILITIES	<u>\$ 7,477,119</u>	<u>\$ 3,594,161</u>	<u>\$ 4,756,842</u>	<u>\$ 6,314,438</u>
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
<u>ASSETS</u>				
Cash.....	\$ 1,030	\$ 955,101	\$ 955,955	\$ 176
Temporary investments.....	95,463	210,365	187,781	118,047
Long-term investments.....	8,473	-	8,473	-
Receivables (net):				
Accounts.....	-	2	2	-
Investment income.....	83	205	83	205
TOTAL ASSETS	<u>\$ 105,049</u>	<u>\$ 1,165,673</u>	<u>\$ 1,152,294</u>	<u>\$ 118,428</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities.....	\$ 104,745	\$ 747,921	\$ 750,547	\$ 102,119
Securities lending obligations.....	297	-	297	-
Due to other funds.....	-	204	204	-
Due to other governments.....	7	25	25	7
Other liabilities.....	-	205,235	188,933	16,302
TOTAL LIABILITIES	<u>\$ 105,049</u>	<u>\$ 953,385</u>	<u>\$ 940,006</u>	<u>\$ 118,428</u>

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
ALLEGHENY REGIONAL ASSET DISTRICT				
SALES AND USE TAX FUND				
<u>ASSETS</u>				
Cash.....	\$ 90	\$ 784,462	\$ 784,442	\$ 110
Temporary investments.....	16,986	196,005	196,365	16,626
Receivables (net):				
Taxes.....	17,800	18,476	17,800	18,476
Accounts.....	-	5	4	1
Investment income.....	9	19	9	19
TOTAL ASSETS	<u>\$ 34,885</u>	<u>\$ 998,967</u>	<u>\$ 998,620</u>	<u>\$ 35,232</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities.....	\$ 473	\$ 367	\$ 657	\$ 183
Due to political subdivisions.....	34,412	50,235	49,598	35,049
TOTAL LIABILITIES	<u>\$ 34,885</u>	<u>\$ 50,602</u>	<u>\$ 50,255</u>	<u>\$ 35,232</u>
UNDERGROUND STORAGE TANK				
INDEMNIFICATION FUND				
<u>ASSETS</u>				
Cash.....	\$ -	\$ 314,872	\$ 312,833	\$ 2,039
Temporary investments.....	16,032	286,503	259,966	42,569
Long-term investments.....	236,461	170,374	146,079	260,756
Receivables (net):				
Accounts.....	18,664	16,166	18,669	16,161
Investment income.....	946	935	946	935
Interest on notes and loans.....	-	1,881	1,881	-
Investment sale proceeds.....	562	-	562	-
Advances to other funds.....	67,500	-	-	67,500
TOTAL ASSETS	<u>\$ 340,165</u>	<u>\$ 790,731</u>	<u>\$ 740,936</u>	<u>\$ 389,960</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities.....	\$ 17,692	\$ 166,111	\$ 165,073	\$ 18,730
Investment purchases payable.....	1,154	162	1,154	162
Securities lending obligations.....	4,244	54,722	31,605	27,361
Due to other funds.....	-	591	591	-
Due to political subdivisions.....	-	79	79	-
Due to other governments.....	1	15	15	1
Other liabilities.....	317,074	26,980	348	343,706
TOTAL LIABILITIES	<u>\$ 340,165</u>	<u>\$ 248,660</u>	<u>\$ 198,865</u>	<u>\$ 389,960</u>

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
MUNICIPAL PENSION AID FUND				
<u>ASSETS</u>				
Cash.....	\$ 12	\$ 1,286,485	\$ 1,286,468	\$ 29
Temporary investments.....	303,291	319,426	317,327	305,390
Receivables (net):				
Taxes.....	7	-	7	-
Accounts.....	-	178	89	89
Investment income.....	263	552	263	552
TOTAL ASSETS	<u>\$ 303,573</u>	<u>\$ 1,606,641</u>	<u>\$ 1,604,154</u>	<u>\$ 306,060</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities.....	\$ 20,692	\$ 611,167	\$ 620,896	\$ 10,963
Due to political subdivisions.....	282,881	597,322	585,106	295,097
Due to other governments.....	-	9	9	-
TOTAL LIABILITIES	<u>\$ 303,573</u>	<u>\$ 1,208,498</u>	<u>\$ 1,206,011</u>	<u>\$ 306,060</u>
FIRE INSURANCE TAX FUND				
<u>ASSETS</u>				
Cash.....	\$ -	\$ 319,551	\$ 319,551	\$ -
Temporary investments.....	63,063	89,902	75,082	77,883
Receivables (net):				
Taxes.....	14,889	-	14,889	-
TOTAL ASSETS	<u>\$ 77,952</u>	<u>\$ 409,453</u>	<u>\$ 409,522</u>	<u>\$ 77,883</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities.....	\$ 2,770	\$ 141,147	\$ 134,352	\$ 9,565
Due to political subdivisions.....	75,182	60,648	67,512	68,318
Due to other governments.....	-	3	3	-
TOTAL LIABILITIES	<u>\$ 77,952</u>	<u>\$ 201,798</u>	<u>\$ 201,867</u>	<u>\$ 77,883</u>
AGENCY CUSTODIAL ACCOUNTS				
<u>ASSETS</u>				
Cash.....	\$ 11,322	\$ 1,232	\$ 505	\$ 12,049
Temporary investments.....	26,198	-	618	25,580
Receivables (net):				
Accounts.....	4,893	1,254	-	6,147
Other assets.....	962	2	19	945
TOTAL ASSETS	<u>\$ 43,375</u>	<u>\$ 2,488</u>	<u>\$ 1,142</u>	<u>\$ 44,721</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities.....	\$ 13,199	\$ 2,163	\$ 59	\$ 15,303
Other liabilities.....	30,176	736	1,494	29,418
TOTAL LIABILITIES	<u>\$ 43,375</u>	<u>\$ 2,899</u>	<u>\$ 1,553</u>	<u>\$ 44,721</u>

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds (continued)
 For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
OTHER FUNDS				
ASSETS				
Cash.....	\$ 718	\$ 3,575,113	\$ 3,575,126	\$ 705
Temporary investments.....	48,204	919,880	920,562	47,522
Receivables (net):				
Taxes.....	43,708	47,019	43,772	46,955
Accounts.....	-	5,713	5,448	265
Investment income.....	32	68	33	67
TOTAL ASSETS	\$ 92,662	\$ 4,547,793	\$ 4,544,941	\$ 95,514
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 254	\$ 76,043	\$ 76,096	\$ 201
Due to political subdivisions.....	88,081	84,357	81,495	90,943
Other liabilities.....	4,327	43	-	4,370
TOTAL LIABILITIES	\$ 92,662	\$ 160,443	\$ 157,591	\$ 95,514
TOTAL — AGENCY FUNDS				
ASSETS				
Cash.....	\$ 13,172	\$ 7,236,816	\$ 7,234,880	\$ 15,108
Cash with fiscal agents.....	75,152	49,004	107,224	16,932
Temporary investments.....	706,137	2,052,425	1,976,815	781,747
Long-term investments.....	2,909,884	3,418,395	3,839,399	2,488,880
Receivables (net):				
Taxes.....	76,404	65,495	76,468	65,431
Accounts.....	49,178	28,597	50,196	27,579
Investment income.....	10,365	38,219	38,335	10,249
Interest on notes and loans.....	-	1,881	1,881	-
Investment sale proceeds.....	3,316	1	3,316	1
Advances to other funds.....	67,500	-	-	67,500
Other assets.....	4,563,672	225,074	879,937	3,908,809
TOTAL ASSETS	\$ 8,474,780	\$ 13,115,907	\$ 14,208,451	\$ 7,382,236
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 159,825	\$ 1,744,919	\$ 1,747,680	\$ 157,064
Investment purchases payable.....	4,186	36,481	24,272	16,395
Securities lending obligations.....	7,244	55,336	34,605	27,975
Due to other funds.....	-	795	795	-
Due to political subdivisions.....	480,556	792,641	783,790	489,407
Due to other governments.....	8	52	52	8
Other liabilities.....	7,822,961	3,790,222	4,921,796	6,691,387
TOTAL LIABILITIES	\$ 8,474,780	\$ 6,420,446	\$ 7,512,990	\$ 7,382,236

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Discretely Presented Component Units

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS DESCRIPTION

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

State Public School Building Authority – issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts. These bonds are repaid solely from lease/loan payments from the schools.

Philadelphia Shipyard Development Corporation – assists the primary government (PG) and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The Philadelphia Shipyard Development Corporation has a December 31, 2017 fiscal year end.

Ben Franklin Technology Development Authority – promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the Ben Franklin Technology Development Authority increase Pennsylvania business competitiveness.

Pennsylvania Higher Educational Facilities Authority – issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

Port of Pittsburgh Commission – promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

Pennsylvania Industrial Development Authority – collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas, or assist specific companies.

Pennsylvania Convention Center Authority – operates the Pennsylvania Convention Center located in the City of Philadelphia.

Thaddeus Stevens College of Technology (TSCT) – is a two-year technical college that prepares students for skilled employment in a diverse, ever-changing workforce. The TSCT offers a two-year degree or nine-month certificate, in 22 different programs of study. The Commonwealth appropriates monies for the TSCT operations.

Pennsylvania Energy Development Authority (PEDA) – finances clean, advanced energy projects in Pennsylvania. Pennsylvania projects that could potentially qualify for funding from the PEDA include solar energy, wind, low-impact hydropower, geothermal, biomass, landfill gas, fuel cells, IGCC, waste coal, coal-mine methane, and demand management measures. The PEDA presently can award grants, loans, and loan guarantees.

There are a total of 15 discretely presented component units (DPCU). The **Pennsylvania Turnpike Commission**, **Pennsylvania Housing Finance Agency**, **Pennsylvania Higher Education Assistance Agency**, **Pennsylvania Infrastructure Investment Authority**, and **State System of Higher Education** are reported as major DPCU's. The Pennsylvania Economic Development Financing Authority is not reported because the only activities for this component unit involve conduit debt.

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Commonwealth of Pennsylvania
Combining Statement of Net Position
 Nonmajor Discretely Presented Component Units
 June 30, 2018

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2017)	Ben Franklin Technology Development Authority	Pennsylvania Higher Educational Facilities Authority
ASSETS				
Current assets:				
Cash.....	\$ -	\$ 613	\$ -	\$ -
Temporary investments.....	4,149	-	33,556	-
Receivables (net):				
Accounts	-	-	-	-
Investment income.....	69	-	60	-
Interest on notes and loans.....	23	-	-	-
Loans.....	2,957	-	-	-
Other	-	-	-	-
Due from Federal government.....	-	-	-	-
Inventory.....	-	-	-	-
Prepaid and deferred expenses.....	-	17	-	-
Total current assets	<u>7,198</u>	<u>630</u>	<u>33,616</u>	<u>-</u>
Noncurrent assets:				
Restricted cash.....	-	-	-	-
Long-term investments.....	19,484	-	-	-
Receivables (net):				
Loans.....	5,281	-	30,678	-
Non-depreciable capital assets:				
Land.....	-	161	-	-
Construction in progress.....	-	-	-	-
Depreciable or amortizable capital assets:				
Land improvements.....	-	-	-	-
Buildings and building improvements.....	-	-	-	-
Machinery and equipment.....	395	-	-	-
Library books.....	-	-	-	-
Other capital assets.....	-	1	-	-
Less: accumulated depreciation and amortization.....	(335)	-	-	-
Net depreciable or amortizable capital assets.....	<u>60</u>	<u>1</u>	<u>-</u>	<u>-</u>
Other assets.....	-	-	-	-
Total noncurrent assets	<u>24,825</u>	<u>162</u>	<u>30,678</u>	<u>-</u>
TOTAL ASSETS.....	<u>32,023</u>	<u>792</u>	<u>64,294</u>	<u>-</u>
DEFERRED OUTFLOWS OF RESOURCES				
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>512</u>	<u>-</u>	<u>125</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	52	-	18	-
Securities lending obligations.....	-	-	-	-
Due to primary government.....	-	-	4	-
Due to other governments.....	-	-	1	-
Interest payable.....	-	-	-	-
Unearned revenue.....	-	-	-	-
Revenue bonds payable.....	-	-	-	-
Capital lease/installment purchase obligations.....	-	-	-	-
Compensated absences.....	52	-	-	-
Other financing obligations.....	-	-	-	-
Other postemployment benefit liability.....	-	-	15	-
Other liabilities.....	35	-	-	-
Total current liabilities.....	<u>139</u>	<u>-</u>	<u>38</u>	<u>-</u>
Non-current liabilities:				
Revenue bond payable.....	-	-	-	-
Capital lease/installment purchase obligations.....	-	-	-	-
Other financing obligations.....	-	-	-	-
Compensated absences.....	142	-	-	-
Other postemployment benefit liability.....	2,847	-	981	-
Net pension liability.....	2,244	-	741	-
Other liabilities.....	53	-	-	-
Total non-current liabilities.....	<u>5,286</u>	<u>-</u>	<u>1,722</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>5,425</u>	<u>-</u>	<u>1,760</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
TOTAL DEFERRED INFLOWS OF RESOURCES.....	<u>408</u>	<u>-</u>	<u>152</u>	<u>-</u>
NET POSITION				
Net investment in capital assets.....	60	162	-	-
Restricted for:				
Debt service.....	-	-	-	-
Economic development.....	-	630	62,507	-
Other purposes.....	26,642	-	-	-
Unrestricted.....	-	-	-	-
TOTAL NET POSITION.....	<u>\$ 26,702</u>	<u>\$ 792</u>	<u>\$ 62,507</u>	<u>\$ -</u>

Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Total
\$ 800	\$ 154	\$ 20,562	\$ 3,469	\$ -	\$ 25,598
2,275	289,793	28,895	4,501	403	363,572
5	95	3,777	64	-	3,941
-	-	-	-	1	130
-	959	-	-	-	982
-	50,019	-	-	-	52,976
-	-	13,500	619	-	14,119
50	-	-	-	-	50
-	-	-	825	-	825
-	-	2,593	67	-	2,677
3,130	341,020	69,327	9,545	404	464,870
-	-	-	3,934	-	3,934
-	-	-	4,165	3,869	27,518
-	241,469	-	-	-	277,428
-	-	994	-	-	1,155
-	-	6,866	2,419	-	9,285
-	-	-	3,095	-	3,095
-	-	778,530	479	-	779,009
2,069	-	180,097	7,181	-	189,742
-	-	-	364	-	364
-	-	-	-	-	1
(1,461)	-	(369,644)	(6,593)	-	(378,033)
608	-	588,983	4,526	-	594,178
-	334	3,729	763	-	4,826
608	241,803	600,572	15,807	3,869	918,324
3,738	582,823	669,899	25,352	4,273	1,383,194
208	8,958	1,283	6,958	32	18,076
124	681	8,489	2,865	-	12,229
-	260	-	-	-	260
4	4	14,797	3	-	14,812
-	1	-	-	-	2
-	3,079	-	-	-	3,079
-	-	2,712	58	-	2,770
1,600	24,015	-	-	-	25,615
-	-	-	105	-	105
-	-	-	491	-	543
-	-	-	78	-	78
-	25	263	-	3	306
-	-	-	-	-	35
1,728	28,065	26,261	3,600	3	59,834
400	137,028	-	-	-	137,428
-	-	-	115	-	115
-	-	-	2,632	-	2,632
79	-	-	2,372	-	2,593
526	1,626	4,960	38,317	174	49,431
884	934	3,669	19,027	178	27,677
-	-	-	92	-	145
1,889	139,588	8,629	62,555	352	220,021
3,617	167,653	34,890	66,155	355	279,855
362	227	1,437	4,669	30	7,285
(592)	-	596,843	4,015	-	600,488
-	54,694	-	-	-	54,694
559	-	38,012	-	3,920	105,628
-	-	-	-	-	26,642
-	369,207	-	(42,529)	-	326,678
\$ (33)	\$ 423,901	\$ 634,855	\$ (38,514)	\$ 3,920	\$ 1,114,130

Commonwealth of Pennsylvania
Combining Statement of Activities

Nonmajor Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2017)	Ben Franklin Technology Development Authority	Pennsylvania Higher Educational Facilities Authority
Expenses.....	\$ 1,639	\$ 249	\$ 33,011	\$ 1,041
Program revenues:				
Charges for sales and services.....	1,171	-	29,065	1,041
Operating grants and contributions.....	362	8	16,131	-
Capital grants and contributions.....	-	-	-	-
Total program revenues.....	1,533	8	45,196	1,041
Change in net position.....	(106)	(241)	12,185	-
Net position, July 1, 2017 (restated).....	26,808	1,033	50,322	-
Net position, June 30, 2018.....	\$ 26,702	\$ 792	\$ 62,507	\$ -

Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Total
\$ 1,571	\$ 26,176	\$ 88,413	\$ 29,833	\$ 697	\$ 182,630
824	7,618	16,876	11,352	-	67,947
919	5,340	40,753	18,063	168	81,744
-	-	22,550	-	-	22,550
<u>1,743</u>	<u>12,958</u>	<u>80,179</u>	<u>29,415</u>	<u>168</u>	<u>172,241</u>
172	(13,218)	(8,234)	(418)	(529)	(10,389)
(205)	437,119	643,089	(38,096)	4,449	1,124,519
<u>\$ (33)</u>	<u>\$ 423,901</u>	<u>\$ 634,855</u>	<u>\$ (38,514)</u>	<u>\$ 3,920</u>	<u>\$ 1,114,130</u>

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Statistical Section



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Financial Trends

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Commonwealth of Pennsylvania

Financial Trends

Table 1
 Net Position by Component
 Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)

	2009	2010	2011	2012 (3)	2013 (3)(5)	2014 (5)(6)	2015 (6)(7)	2016 (8)	2017 (8)(9)	2018 (9)
GOVERNMENTAL ACTIVITIES (1)										
Net investment in capital assets.....	\$ 22,821,832	\$ 24,102,905	\$ 25,352,588	\$ 26,580,581	\$ 27,774,808	\$ 28,344,818	\$ 29,177,938	\$ 30,524,584	\$ 31,540,865	\$ 32,975,535
Restricted for:										
General government operations (2)(4).....	N/A	N/A	672,834	-	1,739	-	35	47	75	197
Health-related programs.....	1,291,318	1,048,684	61,785	18,977	18,830	16,982	15,412	14,294	13,918	13,133
Transportation.....	1,342,189	1,318,358	1,000,129	670,168	352,317	298,733	481,202	599,545	724,063	920,443
Capital projects.....	-	11	-	-	-	-	-	-	-	-
Debt service.....	16,834	46,853	-	-	-	-	-	-	-	-
Unemployment/worker's compensation.....	125,515	301,372	367,006	427,934	499,547	528,908	405,823	468,215	529,416	522,065
Elderly programs.....	62,183	50,213	-	-	-	-	-	-	-	-
Environmental and conservation programs.....	529,274	592,672	331,102	565,891	512,807	551,972	365,837	318,622	370,188	283,430
Economic development.....	23,576	25,312	-	-	-	-	-	-	6,862	5,619
Gaming licensing/regulation.....	917,466	771,616	720,578	725,468	709,348	651,467	502,589	426,436	400,131	136,002
Correctional industries and procurement.....	37,701	49,467	62,868	71,095	52,287	38,976	5,498	6,284	26,422	-
Emergency support.....	57,324	58,209	51,926	46,793	52,178	50,535	55,044	65,361	93,002	92,680
Higher education.....	8,985	7,715	-	-	-	-	-	-	-	-
Other purposes.....	58,842	55,616	40,078	35,614	35,626	57,614	24,019	18,528	-	-
Unrestricted.....	(4,053,146)	(4,881,426)	(4,407,594)	(5,460,053)	(5,685,524)	(7,658,746)	(17,846,863)	(19,407,921)	(21,275,848)	(42,892,246)
TOTAL GOVERNMENTAL ACTIVITIES NET POSITION.....	23,239,893	23,547,577	24,253,300	23,682,468	24,323,963	22,881,259	13,186,534	13,033,995	12,429,094	(7,943,142)
BUSINESS-TYPE ACTIVITIES (1)										
Net investment in capital assets.....	78,561	74,392	84,065	77,259	465,161	489,357	504,790	528,443	556,457	600,833
Restricted for:										
Health-related programs.....	1,059	2,837	2,323	1,340	4,456	5,588	-	-	-	-
Transportation.....	103,652	110,987	118,938	121,760	126,986	134,364	136,802	139,029	140,676	136,932
Capital projects.....	-	-	-	-	-	-	-	2	149	182
Debt service.....	-	-	-	-	4,199	4,199	4,199	4,199	4,200	4,224
Unemployment/worker's compensation.....	342,098	-	-	-	-	-	-	685,191	1,746,563	2,861,392
Economic development (7).....	283,012	295,502	304,767	309,636	325,269	333,821	5,256	5,102	6,373	13,495
Emergency support.....	134,685	138,884	144,834	147,747	151,853	156,951	129,459	132,008	127,464	130,377
Higher Education.....	-	-	-	-	29,009	155,638	226,767	218,155	282,773	381,710
Other purposes.....	76,573	85,177	94,985	98,203	105,929	147,076	116,825	123,408	135,536	133,877
Unrestricted.....	(403,122)	(1,916,364)	(2,314,339)	(1,913,601)	(2,412,444)	(1,961,503)	(1,632,295)	(1,395,385)	(2,274,990)	(5,038,475)
TOTAL BUSINESS-TYPE ACTIVITIES NET POSITION.....	616,518	(1,208,585)	(1,564,427)	(1,157,656)	(1,199,582)	(534,509)	(508,197)	440,152	725,201	(775,453)
PRIMARY GOVERNMENT (1)										
Net investment in capital assets.....	22,900,393	24,177,297	25,436,653	26,657,840	28,239,969	28,834,175	29,682,728	31,053,027	32,097,322	33,576,368
Restricted for:										
General government operations (2)(4).....	N/A	N/A	672,834	-	1,739	-	35	47	75	197
Health-related programs.....	1,292,377	1,051,521	64,108	20,317	23,286	22,570	15,412	14,294	13,918	13,133
Transportation.....	1,445,841	1,429,345	1,119,067	791,928	479,303	433,097	618,004	738,574	864,739	1,057,375
Capital projects.....	-	11	-	-	-	-	-	2	149	182
Debt service.....	16,834	46,853	-	-	4,199	4,199	4,199	4,199	4,200	4,224
Unemployment/worker's compensation.....	467,613	301,372	367,006	427,934	499,547	528,908	405,823	1,153,406	2,275,979	3,383,457
Elderly programs.....	62,183	50,213	-	-	-	-	-	-	-	-
Environmental and conservation programs.....	529,274	592,672	331,102	565,891	512,807	551,972	365,837	318,622	370,188	283,430
Economic development (7).....	306,588	320,814	304,767	309,636	325,269	333,821	5,256	5,102	13,235	19,114
Gaming licensing/regulation.....	917,466	771,616	720,578	725,468	709,348	651,467	502,589	426,436	400,131	136,002
Correctional industries and procurement.....	37,701	49,467	62,868	71,095	52,287	38,976	5,498	6,284	26,422	-
Emergency support.....	192,009	197,093	196,760	194,540	204,031	207,486	184,503	197,369	220,466	223,057
Higher education.....	8,985	7,715	-	-	29,009	155,638	226,767	218,155	282,773	381,710
Other purposes.....	135,415	140,793	135,063	133,817	141,555	204,690	140,844	141,936	135,536	133,877
Unrestricted.....	(4,456,268)	(6,797,790)	(6,721,933)	(7,373,654)	(8,097,968)	(9,620,249)	(19,479,158)	(20,803,306)	(23,550,838)	(47,930,721)
TOTAL PRIMARY GOVERNMENT NET POSITION (1).....	\$ 23,856,411	\$ 22,338,992	\$ 22,688,873	\$ 22,524,812	\$ 23,124,381	\$ 22,346,750	\$ 12,678,337	\$ 13,474,147	\$ 13,154,295	\$ (8,718,595)

Commonwealth of Pennsylvania

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Governor's Office of the Budget
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Commonwealth of Pennsylvania

Financial Trends

Table 1

Net Position by Component

Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)

Source: The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2009-2012, the information can be found in the statement of net assets. Beginning with the 2013 fiscal year, the information can be found in the statement of net position.

Notes:

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented two new GASB standards which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. Therefore, their net position is reported within the business-type activities caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the governmental activities caption. The implementation of GASB 63 resulted in the Commonwealth reporting a statement of net position for the 2013 fiscal year, replacing the statement of net assets which had been reported in previous fiscal years. For purposes of this table, the implementation of GASB 63 had no effect other than changing the title of this table and the net investment in capital assets caption title. The purpose of each reported caption did not change with the implementation. These two standards were not retroactively applied to the previous fiscal years; therefore the amounts shown for the 2009-2012 fiscal years were those reported within the statement of net assets for the applicable fiscal year. For ease of reading this table and the additional notes shown below, net position is interchanged with net assets which were in effect for fiscal years 2009-2012.

(2)-For the 2011 fiscal year, the caption "General government operations" was created specifically for any net position restrictions reported within that portion of the General Fund not associated with the 38 former special revenue funds which were reclassified as components of the General Fund. In past fiscal years, this portion, if not reported as a deficit, was reported within various net position restriction categories. These changes have not been retroactively applied to prior fiscal years.

(3)-As a result of the implementation of GASB 61 described in Note 1 above, the beginning net position balance for governmental activities and business-type activities was decreased by \$6,165 and \$273,595, respectively, as of July 1, 2012. Therefore, the ending net position balance (for governmental activities, business-type activities, and total primary government) shown in this table as of June 30, 2012 plus the change in net position shown in table 2 for the June 30, 2013 fiscal year will differ from the ending net position balance (for governmental activities, business type activities and total primary government) shown in this table as of June 30, 2013. Note B in the notes to the financial statements in the June 30, 2013 CAFR provides additional details on this restatement.

(4)-For the 2011 fiscal year, balances in the amount of \$672,834 related to the grant ledgers were reported as restricted. Since the 2012 fiscal year, those balances have been reported as unrestricted/(deficit).

(5)-For the 2014 fiscal year, the Commonwealth implemented GASB Statement 65 requiring the deferral of resources. With the implementation of GASB 65, the beginning net position for governmental activities, business type activities and total primary government net position was restated and decreased by \$31,614, \$34,565, and \$66,179, respectively, as of July 1, 2013. Therefore, the ending net position balance (for governmental activities, business-type activities, and total primary government) shown in this table as of June 30, 2013 plus the change in net position shown in Table 2 for the June 30, 2014 fiscal year will differ from the ending net position balance (for governmental activities, business type activities and total primary government) shown in this table as of June 30, 2014. Note B in the notes to the financial statements in the June 30, 2014 CAFR provides additional details on this restatement.

(6)-For the 2015 fiscal year, the Commonwealth implemented GASB Statements 68 and 71, which required the reporting of net pension liability, including the associated deferral of resources. With the implementation of GASB 68 and 71, the beginning net position for governmental activities, business type activities and total primary government net position was restated and decreased by \$10,622,867, \$460,686, and \$11,083,553, respectively, as of July 1, 2014. Therefore, the ending net position balance (for governmental activities, business-type Activities, and total primary government) shown in this table as of June 30, 2014 plus the change in net position shown in Table 2 for the June 30, 2015 fiscal year will differ from the ending net position balance (for governmental activities, business type activities and total primary government) shown in this table as of June 30, 2015. Note B in the notes to the financial statements in the June 30, 2015 CAFR provides additional details on this restatement.

(7)-Through the 2014 fiscal year, the net position of the Small Business First Fund and the Machinery and Equipment Loan Fund (both proprietary funds) were included within the economic development restricted net position category. Effective November 1, 2014, their operations were transferred to the Pennsylvania Industrial Development Authority, a discretely presented component unit.

(8)-For the 2017 fiscal year, the operations of the Pennsylvania eHealth Partnership Authority, reported as a discretely presented component unit in the June 30, 2016 CAFR, were merged into the Commonwealth's primary government, effective July 1, 2017. The operations are reported within the General Fund. With this merger, the beginning net position for governmental activities and total primary government both were increased by \$361, as of July 1, 2016. Therefore, the ending net position balance (for governmental activities and total primary government) shown in this table as of June 30, 2016 plus the change in net position shown in Table 2 for the June 30, 2017 fiscal year will differ from the ending net position balance (for governmental activities and total primary government) shown in this table as of June 30, 2017. Note 18 in the notes to the financial statements provides additional details on this change in reporting entity.

(9)-For the 2018 fiscal year, the Commonwealth implemented GASB Statement 75, which established new standards for reporting the liabilities and associated deferral of resources associated with other postemployment benefits provided to employees of state and local governments. With the implementation of GASB 75, the beginning net position for governmental activities, business-type activities and total primary government net position was restated and decreased by \$22,422,768, \$1,012,462, and \$23,435,230, respectively, as of July 1, 2017. Therefore, the ending net position balance (for governmental activities, business-type activities, and total primary government) shown in this table as of June 30, 2017 plus the change in net position shown in Table 2 for the June 30, 2018 fiscal year will differ from the ending net position balance (for governmental activities, business-type activities and total primary government) shown in this table as of June 30, 2018. Note 18 to the Financial Statements provides additional details on this restatement.

Commonwealth of Pennsylvania

Financial Trends

Table 2
Changes in Net Position
For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting—amounts in thousands)

	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017 (6)	2018 (7)
GOVERNMENTAL ACTIVITIES (1)										
Expenses:										
Direction and supportive services.....	\$ 1,492,541	\$ 1,950,908	\$ 2,052,743	\$ 2,243,649	\$ 1,528,057	\$ 1,619,894	\$ 1,415,057	\$ 1,366,741	\$ 1,255,507	\$ 1,580,148
Protection of persons and property	5,480,770	5,682,950	5,384,710	5,541,681	6,010,950	6,216,380	6,659,818	6,750,256	7,011,983	6,839,284
Public education.....	14,045,890	14,520,733	14,864,360	13,394,225	13,885,466	14,205,019	14,451,280	14,914,554	16,426,756	16,516,828
Health and human services.....	26,615,566	28,321,389	30,388,529	30,680,717	30,495,970	31,634,286	33,880,187	36,620,781	41,335,304	40,314,856
Economic development.....	1,614,214	1,580,654	1,598,596	1,537,068	1,032,887	1,005,570	977,910	883,046	1,006,641	930,891
Transportation.....	4,278,022	4,951,010	4,465,639	4,382,503	4,764,139	5,204,513	5,751,229	5,943,778	6,365,693	6,193,274
Recreation and cultural enrichment.....	602,365	559,311	491,082	514,309	519,242	522,662	615,175	607,420	626,195	597,073
Interest.....	382,065	395,305	440,428	475,545	489,401	494,177	266,477	512,324	435,877	520,369
Total expenses.....	54,511,433	57,962,260	59,686,087	58,769,697	58,726,112	60,902,501	64,017,133	67,598,900	74,463,956	73,492,723
Program revenues:										
Charges for sales and services:										
Direction and supportive services.....	74,320	216,188	252,572	277,492	363,296	256,820	975,506	424,384	428,813	351,172
Protection of persons and property	1,083,889	1,331,281	1,034,481	1,302,020	1,380,582	1,348,469	1,350,043	1,539,295	1,571,915	1,895,974
Public education.....	15,756	18,201	14,928	4,776	5,926	5,337	5,102	7,647	6,059	7,175
Health and human services.....	1,559,638	1,134,144	1,597,599	1,658,657	1,641,534	1,726,322	1,819,309	1,999,519	2,994,241	3,165,336
Economic development.....	15,553	12,317	11,812	8,205	13,910	6,373	6,695	7,110	6,221	5,582
Transportation.....	944,486	910,721	976,705	970,026	972,417	1,036,790	1,210,668	1,316,284	1,365,419	1,434,982
Recreation and cultural enrichment.....	312,287	416,053	181,373	245,405	304,903	338,954	274,966	251,242	258,709	250,493
Operating grants and contributions.....	20,370,216	25,620,597	26,071,112	22,816,711	22,792,032	22,859,945	24,083,463	26,946,551	30,207,372	29,458,189
Capital grants and contributions.....	47,320	57,628	221,195	67,866	91,603	42,261	32,186	62,360	78,145	30,682
Total program revenues.....	24,423,465	29,717,130	30,361,777	27,351,158	27,566,203	27,621,271	29,757,938	32,554,392	36,916,894	36,599,585
Total governmental activities net program revenues/(expenses).....	(30,087,968)	(28,245,130)	(29,324,310)	(31,418,539)	(31,159,909)	(33,281,230)	(34,259,195)	(35,044,508)	(37,547,062)	(36,893,138)
General revenues and other changes in net position:										
General revenues:										
Taxes:										
Personal income.....	9,553,538	9,414,864	9,771,269	10,022,285	10,798,328	10,817,073	11,678,106	12,025,979	12,072,378	12,810,647
Sales and use.....	8,417,292	8,309,905	8,610,603	8,977,379	9,106,779	9,293,356	9,872,467	10,231,892	10,714,383	10,834,227
Corporation.....	4,209,705	4,146,477	4,469,094	4,504,105	4,781,555	4,314,093	5,195,882	4,134,991	4,406,000	4,548,567
Liquid fuels and motor carriers.....	1,975,678	2,045,505	2,092,645	2,096,222	2,058,226	2,349,982	3,017,991	3,303,273	3,583,153	3,846,040
Gaming (2).....	999,247	1,232,829	1,409,388	1,487,729	1,447,796	1,404,277	1,404,195	1,393,508	1,402,207	1,427,502
Inheritance.....	733,405	698,980	783,824	803,573	796,007	850,221	976,286	947,699	988,569	1,008,382
Cigarette.....	1,000,987	1,088,405	1,104,355	1,081,587	1,038,605	968,436	954,930	974,267	1,406,189	1,363,371
Realty transfer.....	348,003	346,094	328,997	343,015	396,552	439,797	485,275	564,002	564,030	606,555
Other.....	492,420	1,035,935	1,167,804	1,306,395	1,353,566	1,499,745	1,459,063	1,350,437	948,200	624,910
Total taxes.....	27,730,275	28,318,994	29,737,979	30,622,290	31,777,414	31,936,980	35,044,195	34,926,048	36,085,109	37,070,201
Investment income.....	(137,831)	15,099	52,129	14,979	12,876	36,311	16,072	16,297	22,977	38,758
Total general revenues.....	27,592,444	28,334,093	29,790,108	30,637,269	31,790,290	31,973,291	35,060,267	34,942,345	36,108,086	37,108,959
Transfers from business-type activities.....	430,398	218,721	239,925	210,438	17,275	(103,151)	127,071	(50,376)	833,714	1,834,711
Net general revenues and transfers.....	28,022,842	28,552,814	30,030,033	30,847,707	31,807,565	31,870,140	35,187,338	34,891,969	36,941,800	38,943,670
Total governmental activities change in net position.....	\$ (2,065,126)	\$ 307,684	\$ 705,723	\$ (570,832)	\$ 647,656	\$ (1,411,090)	\$ 928,143	\$ (152,539)	\$ (605,262)	\$ 2,050,532

Commonwealth of Pennsylvania

Financial Trends

Table 2
Changes in Net Position
For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting—amounts in thousands)

	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017 (6)	2018 (7)
BUSINESS-TYPE ACTIVITIES (1)										
Expenses										
State lottery.....	\$ 3,173,322	\$ 3,079,381	\$ 3,155,903	\$ 3,429,773	\$ 3,732,233	\$ 3,720,574	\$ 4,078,746	\$ 3,967,703	\$ 3,982,011	\$ 4,089,703
State workers' insurance.....	388,424	338,229	306,318	268,388	365,900	267,991	312,856	286,526	221,245	167,630
Tuition payment.....	100,028	235,876	259,069	236,342	248,592	277,139	226,330	231,082	336,445	255,056
Unemployment compensation (2).....	6,250,213	8,741,990	7,460,707	6,031,968	4,498,001	3,189,395	2,235,297	2,322,278	2,088,543	1,911,547
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	261,428	189,682	162,358	188,604	217,680	253,020
Liquor control.....	1,437,168	1,478,971	1,504,517	1,569,868	1,618,065	1,683,185	1,800,698	1,855,594	1,947,038	1,965,637
Economic development and other (1).....	14,171	13,706	23,635	16,997	41,199	47,212	57,287	54,089	52,211	55,765
Total expenses.....	11,363,326	13,888,153	12,710,149	11,553,336	10,765,418	9,375,178	8,873,572	8,905,876	8,845,173	8,698,358
Program revenues										
Charges for sales and services:										
State lottery.....	3,088,231	3,052,097	3,206,933	3,476,953	3,671,780	3,786,090	3,810,017	4,135,246	4,002,543	4,213,344
State workers' insurance.....	291,677	223,458	173,571	157,579	178,058	207,208	225,660	211,481	184,205	166,029
Tuition payment.....	153,892	157,336	165,157	185,947	182,555	191,766	191,915	192,187	206,893	205,717
Unemployment compensation (2).....	2,423,125	2,328,099	2,579,252	3,447,659	3,031,318	2,900,976	3,073,915	3,162,555	3,122,318	2,961,853
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	10,172	8,463	11,083	9,237	10,497	21,692
Liquor control.....	1,507,512	1,527,998	1,586,394	1,673,027	1,747,060	1,803,367	1,880,256	1,956,129	2,046,869	2,116,899
Economic development and other (1).....	19,067	22,254	24,449	17,478	25,816	25,305	36,170	26,463	29,211	30,511
Operating grants and contributions.....	1,760,824	4,970,529	4,858,476	3,211,902	2,166,475	1,048,220	416,322	110,551	361,400	328,832
Capital grants and contributions.....	-	-	-	-	1,128	270	232	-	-	-
Total program revenues.....	9,244,328	12,281,771	12,594,232	12,170,545	11,014,362	9,971,665	9,645,570	9,803,849	9,963,936	10,044,877
Total business-type activities net program revenues/(expenses).....	(2,118,998)	(1,606,382)	(115,917)	617,209	248,944	596,487	771,998	897,973	1,118,763	1,346,519
Other changes in net position										
Special item-loss on transfer of operations (5).....	-	-	-	-	-	-	(157,930)	-	-	-
Transfers to governmental activities.....	(430,398)	(218,721)	(239,925)	(210,438)	(17,275)	103,151	(127,071)	50,376	(833,714)	(1,834,711)
Net special items and transfers.....	(430,398)	(218,721)	(239,925)	(210,438)	(17,275)	103,151	(285,001)	50,376	(833,714)	(1,834,711)
Total business-type activities change in net position.....	(2,549,396)	(1,825,103)	(355,842)	406,771	231,669	699,638	486,997	948,349	285,049	(488,192)
Total primary government change in net position.....	\$ (4,614,522)	\$ (1,517,419)	\$ 349,881	\$ (164,061)	\$ 879,325	\$ (711,452)	\$ 1,415,140	\$ 795,810	\$ (320,213)	\$ 1,562,340

Source: The statement of activities, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

- (1)-Beginning with the 2013 fiscal year, the Commonwealth implemented two new GASB standards which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. The Commonwealth Financing Authority is reported as a major enterprise fund, and is reported under the Commonwealth Financing Authority caption. The Philadelphia Regional Port Authority is reported as a nonmajor enterprise fund, and is reported within the "Economic development and other" caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the governmental activities caption. The implementation of GASB 63 resulted in the Commonwealth reporting a statement of net position for the 2013 fiscal year, replacing the statement of net assets which had been reported in previous fiscal years. For purposes of this table, the implementation of GASB 63 had no effect other than changing the reference to changes in net position rather than changes in net assets. These two standards were not retroactively applied to the previous fiscal years. For ease of reading this table, change in net position is interchanged with change in net assets which were in effect for fiscal years 2008-2012.
- (2)-In the Unemployment Compensation Fund, the June 30, 2010 fiscal year amounts for expenses and program revenues were reduced by \$3,008,615 in order to present a reclassification made in the June 30, 2011 fiscal year. The June 30, 2010 CAFR was not restated to reflect these amounts.
- (3)-Beginning with the 2014 fiscal year, the Commonwealth implemented GASB Statement 65. As noted in Table 1, the Commonwealth restated its net position for July 1, 2013. Note B in the notes to the financial statements in the June 30, 2014 CAFR provides additional details on this restatement. The primary effect on this table is that beginning with the 2014 fiscal year, certain assets are now reported as expenses. The changes were not made retroactively.
- (4)-Beginning with the 2015 fiscal year, the Commonwealth implemented GASB Statements 68 and 71. As noted in Table 1, the Commonwealth restated its net position for July 1, 2014. Details on the restatement can be found in Note B in the notes to the financial statements in the June 30, 2015 CAFR. The primary effect on this table is that beginning with the 2015 fiscal year, expenses associated with net pension liability and associated deferral of resources are now being reported within this table. The changes were not made retroactively.
- (5)-Effective November 1, 2014, the operations of the Small Business First Fund and the Machinery and Equipment Loan Fund (both proprietary funds) were transferred to the Pennsylvania Industrial Development Authority, a discretely presented component unit.
- (6)-Beginning with the 2017 fiscal year, the operations of the Pennsylvania eHealth Partnership Authority, reported as a discretely presented component unit in the June 30, 2016 CAFR, were merged into the Commonwealth's primary government, effective July 1, 2017. The operations are reported within the General Fund. As noted in Table 1, the Commonwealth increased its net position for July 1, 2016. Details on the change in reporting entity can be found in Note 18 in the notes to the financial statements. The primary effect on this table is that beginning with the 2017 fiscal year, the activity associated with these operations is being reported within this table.
- (7)-Beginning with the 2018 fiscal year, the Commonwealth implemented GASB Statement 75. As noted in Table 1, the Commonwealth restated its net position for July 1, 2017. Details on the restatement can be found in Note 18 to the Financial Statements. The primary effect on this table is that beginning with the 2018 fiscal year, expenses associated with other postemployment benefit liabilities and associated deferral of resources are now being reported within this table. The changes were not made retroactively.

**Commonwealth of Pennsylvania
Financial Trends**

**Table 3
Governmental Fund Type Fund Balances
Last Ten Fiscal Years as of June 30**

(Modified accrual basis of accounting—amounts in thousands)

	2009	2010	2011	2012 (6)	2013 (6)	2014	2015	2016 (8)	2017 (8)	2018
GENERAL FUND (1)(2)(3)(4)(7)(8)										
Reserved for:										
Encumbrances.....	\$ 785,864	\$ 806,181	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Advances.....	139,108	139,108	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loans receivable.....	9,924	9,989	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Budget Stabilization Reserve.....	745,949	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other.....	1,375,432	764,206	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved:										
Undesignated.....	(2,541,099)	(1,434,681)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonspendable.....	N/A	N/A	123,156	240,975	223,930	265,403	247,216	284,398	218,343	201,500
Restricted (5).....	N/A	N/A	756,141	-	76	45	36	45	78	1,378
Committed.....	N/A	N/A	1,063,613	1,276,671	1,334,872	1,119,470	1,289,298	1,486,831	2,321,358	2,737,182
Assigned.....	N/A	N/A	-	-	7,132	-	-	-	-	-
Unassigned/(deficit) (5).....	N/A	N/A	(321,475)	(258,351)	-	(1,950,956)	(1,262,997)	(1,681,165)	(3,237,347)	(2,126,350)
TOTAL GENERAL FUND.....	515,178	284,803	1,621,435	1,259,295	1,566,010	(566,038)	273,553	90,109	(697,568)	813,710
ALL OTHER GOVERNMENTAL FUNDS (1)(2)(3)(4)(7)(8)										
Reserved for:										
Encumbrances.....	2,085,395	2,329,299	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Advances.....	3,000	3,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loans receivable.....	83,100	79,315	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other.....	916,713	907,005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved:										
Designated for, reported in:										
Highways.....	700,018	768,710	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Special Revenue funds.....	8,666	2,218	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt Service funds.....	16,834	46,853	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capital Projects funds.....	33,527	32,879	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	2,448,383	2,421,257	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capital Projects funds (deficit).....	(721,365)	(524,465)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Restricted reported in:										
Special Revenue funds.....	N/A	N/A	3,711,994	3,690,354	3,557,116	3,776,739	3,756,605	3,708,867	4,131,763	4,351,727
Committed reported in:										
Special Revenue funds.....	N/A	N/A	426,391	402,207	374,074	373,185	116,314	159,035	159,374	66,986
Debt Service funds.....	N/A	N/A	17,040	48,400	37,041	9,221	11,717	23,446	7,240	53,594
Capital Projects funds.....	N/A	N/A	239,180	509,618	282,094	423,670	1,022,565	566,823	1,179,244	1,659,719
Unassigned reported in:										
Special Revenue funds (deficit).....	N/A	N/A	(2,837)	(2,955)	(3,167)	-	(1,936)	-	(42,077)	(9,481)
Capital Projects funds (deficit).....	N/A	N/A	(20,711)	-	-	-	-	-	-	-
TOTAL ALL OTHER GOVERNMENTAL FUNDS.....	\$ 5,574,271	\$ 6,066,071	\$ 4,371,057	\$ 4,647,624	\$ 4,247,158	\$ 4,582,815	\$ 4,905,265	\$ 4,458,171	\$ 5,435,544	\$ 6,122,545

Commonwealth of Pennsylvania
Financial Trends

Table 3

Governmental Fund Type Fund Balances
Last Ten Fiscal Years as of June 30

(Modified accrual basis of accounting-amounts in thousands)

Source: The balance sheet-governmental funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the governmental fund caption.

(2)-The Commonwealth implemented GASB Statement 54 for the 2011 fiscal year. To implement GASB Statement 54, it was necessary to reclass 41 special revenue funds. 38 of these were reclassified as components of the General Fund, and the remaining three were reclassified as capital project funds. This reclassification required the restatement of the General Fund fund balance from the \$284,803 shown in this schedule at the end of the 2010 fiscal year to \$565,223 which was reported at July 1, 2010. Likewise, the fund balance for all other governmental funds was restated from the \$6,066,071 shown at the end of the 2010 fiscal year to \$5,785,651 at July 1, 2010.

(3)-In addition to the restatement described in note (2), existing categories were changed from reserved and unreserved fund balances to nonspendable and spendable (restricted, committed, assigned and unassigned) fund balances. Details of the Commonwealth's implementation of GASB Statement 54, including the restatement described in Note (2), are described in Notes A and B of the Commonwealth's June 30, 2011 CAFR.

(4)-The changes described in Notes (2) and (3) above were not retroactively applied. Therefore, governmental fund balances through the 2010 fiscal year are reported as reserved and unreserved, with the 38 funds described above included in the fund balances for all other governmental funds, rather than the General Fund.

(5)-For the 2011 fiscal year, balances in the amount of \$756,141 related to the grant ledgers were reported as restricted. In subsequent fiscal years, those balances were reported as part of the unassigned/(deficit) category.

(6)-As a result of the implementation of GASB 61 described in Note (1) above, the beginning fund balance for the General Fund was restated and decreased by \$6,165 as of July 1, 2012. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2012 plus the change in fund balances shown in Table 4 for the June 30, 2013 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2013. Note B in the notes to the financial statements in the June 30, 2013 CAFR provides additional details on this restatement.

(7)-The Cigarette Fire Safety & Firefighter Protection Fund was initially created and reported as a component of the General Fund in the June 30, 2013 CAFR. Based on criteria established by GASB Statement 54, it was determined that this fund should have been classified as a special revenue fund. Therefore, this reclassification required the restatement of the General Fund fund balance from the \$1,566,010 shown in this schedule at the end of the 2013 fiscal year to \$1,565,668 which was reported at July 1, 2013. Likewise, the fund balance for all other governmental funds was restated from the \$4,247,158 shown at the end of the 2013 fiscal year to \$4,247,500 at July 1, 2013. Note B in the notes to the financial statements in the June 30, 2014 CAFR provides additional details on this restatement.

(8)-For the 2017 fiscal year, the operations of the Pennsylvania eHealth Partnership Authority, reported as a discretely presented component unit in the June 30, 2016 CAFR, were merged into the Commonwealth's primary government, effective July 1, 2017. The activity is reported within the General Fund. With this merger, the beginning fund balance for the General Fund was increased by \$2,048, as of July 1, 2016. In addition, the Veterans' Trust Fund was initially created and reported as a component of the General Fund in the June 30, 2013 CAFR. Based on criteria established by GASB Statement 54, it was determined for the June 30, 2017 CAFR that this fund should have been classified as a special revenue fund. This required the beginning fund balance of the General Fund to be decreased by \$1,960, and the fund balance for all other governmental funds was increased by \$1,960. The net effect of both was an increase in the beginning fund balance of the General Fund from the \$90,109 shown in this schedule at the end of the 2016 fiscal year to \$90,197 which was reported at July 1, 2016. Likewise, the fund balance for all other governmental funds was increased from the \$4,458,171 shown at the end of the 2016 fiscal year to \$4,460,131 at July 1, 2016. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2016 plus the change in fund balances shown in Table 4 for the June 30, 2017 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2017. Note 18 in the notes to the financial statements provides additional details on this change in reporting entity.

Commonwealth of Pennsylvania
Financial Trends

Table 4
 Revenues by Source and Expenditures by Function-All Governmental Fund Types
 For the Last Ten Fiscal Years Ended June 30

(Modified accrual basis of accounting-amounts in thousands)

	2009	2010	2011	2012	2013 (1)	2014	2015	2016	2017	2018
REVENUES BY SOURCE										
Taxes, net of refunds.....	\$ 27,773,110	\$ 28,229,235	\$ 30,007,455	\$ 30,775,017	\$ 31,722,661	\$ 31,696,451	\$ 35,049,415	\$ 35,062,564	\$ 35,804,620	\$ 37,166,943
Licenses and fees.....	1,674,804	1,951,683	1,806,751	2,070,914	2,149,402	2,212,222	2,414,048	2,711,573	2,777,557	3,121,906
Intergovernmental.....	20,619,848	25,256,164	26,029,290	22,804,215	22,683,124	22,543,458	24,083,157	27,130,356	29,734,671	29,257,457
Charges for sales and services.....	1,597,751	1,501,109	1,688,449	1,763,586	1,839,507	1,920,911	2,793,311	2,129,846	3,099,188	3,342,701
Investment income.....	(306,524)	344,936	326,021	116,945	155,845	270,607	93,756	85,338	218,483	169,233
Other (2).....	715,425	686,069	632,670	709,810	767,463	486,992	441,176	702,830	739,385	630,784
TOTAL REVENUES	52,074,414	57,969,196	60,490,636	58,240,487	59,318,002	59,130,641	64,874,863	67,822,507	72,373,904	73,689,024
EXPENDITURES BY FUNCTION										
Direction and supportive services	1,375,399	1,779,748	1,622,374	1,578,240	1,557,306	1,535,593	1,329,707	1,124,931	1,150,808	1,407,099
Protection of persons and property.....	5,169,377	5,359,792	5,307,198	5,089,854	5,668,261	5,753,876	5,936,010	5,884,950	6,208,519	6,276,948
Health and human services.....	26,549,790	28,340,751	30,435,510	30,662,493	30,371,117	31,773,484	33,920,750	36,729,441	40,378,702	40,186,060
Public education.....	14,019,470	14,492,845	14,836,658	13,363,316	13,858,078	14,108,944	14,414,312	14,867,677	16,345,233	16,467,799
Recreation and cultural enrichment.....	570,177	506,737	463,501	482,065	474,966	484,137	544,326	536,873	533,125	559,015
Economic development.....	1,605,513	1,582,097	1,596,548	1,405,895	1,028,828	1,000,607	970,286	858,890	983,358	916,074
Transportation.....	3,321,647	3,833,745	3,129,306	3,264,969	3,342,421	3,467,088	4,096,439	4,275,308	4,520,863	4,326,573
Capital outlay.....	2,812,788	3,144,349	3,248,174	3,389,801	2,915,982	2,836,086	2,961,404	3,186,397	2,920,195	3,426,519
Debt service:										
Principal retirement.....	598,850	626,090	697,510	711,875	769,390	761,345	762,425	757,455	768,551	724,720
Interest and fiscal charges.....	402,653	406,414	477,751	510,783	531,564	554,574	563,326	578,463	582,068	567,924
TOTAL EXPENDITURES	56,425,664	60,072,568	61,814,530	60,459,291	60,517,913	62,275,734	65,498,985	68,800,385	74,391,422	74,858,731
DEFICIENCY OF REVENUES UNDER EXPENDITURES.....										
	(4,351,250)	(2,103,372)	(1,323,894)	(2,218,804)	(1,199,911)	(3,145,093)	(624,122)	(977,878)	(2,017,518)	(1,169,707)
OTHER FINANCING SOURCES/(USES)										
Bonds issued.....	1,064,103	1,900,401	650,000	1,600,303	950,300	1,295,000	1,460,000	355,000	1,208,725	1,247,000
Refunding bonds issued.....	155,642	695,945	-	161,272	361,760	289,946	782,425	633,175	605,170	970,030
Premium on debt issuance.....	88,921	203,601	37,739	259,314	216,416	203,088	318,957	173,671	242,927	252,698
Discount on bonds issued.....	-	(2,924)	(4,724)	-	-	-	(1,441)	(780)	(2,286)	(1,430)
Other financing agreements.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	201,115
Transfers in.....	1,693,343	2,251,986	2,344,796	1,777,033	1,914,421	1,956,242	2,242,290	2,265,296	3,158,742	4,022,068
Transfers out.....	(1,257,945)	(1,888,368)	(2,062,410)	(1,580,564)	(1,888,173)	(2,059,393)	(2,115,219)	(2,315,672)	(2,325,028)	(2,187,357)
Payment to refunded bond escrow agent.....	(166,978)	(795,844)	-	(192,390)	(444,364)	(336,896)	(900,849)	(763,350)	(683,084)	(1,136,887)
Capital lease and installment purchase obligations.....	3,638	-	111	108,263	1,965	715	-	-	-	749
TOTAL OTHER FINANCING SOURCES/(USES).....	1,580,724	2,364,797	965,512	2,133,231	1,112,325	1,348,702	1,786,163	347,340	2,205,166	3,367,986
NET CHANGE IN FUND BALANCES.....	\$ (2,770,526)	\$ 261,425	\$ (358,382)	\$ (85,573)	\$ (87,586)	\$ (1,796,391)	\$ 1,162,041	\$ (630,538)	\$ 187,648	\$ 2,198,279
Debt Service as a Percentage of Noncapital Expenditures (3).....	1.87%	1.81%	2.01%	2.14%	2.26%	2.21%	2.12%	2.04%	1.89%	1.81%

Source: The statement of revenues, expenditures, and changes in fund balances-governmental funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within this table. This change was not retroactively applied to the previous fiscal years.

(2)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.

(3)-Ratio is calculated as principal retirement plus interest and fiscal charges expenditures divided by total expenditures less capital outlay expenditures. There are no expenditures for capitalized assets contained within the functional expenditure categories.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 5
 Personal Income by Industry
 For the Last Ten Calendar Years
 (Amounts in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
TOTAL PERSONAL INCOME BY INDUSTRY (1)(2)										
Workplace Earnings:										
Farm Earnings	\$ 1,373	\$ 952	\$ 1,342	\$ 1,779	\$ 2,055	\$ 2,305	\$ 2,619	\$ 1,665	\$ 813	\$ 1,224
Nonfarm Earnings:										
Private earnings:										
Forestry, fishing/hunting, agriculture.....	476	468	598	563	682	699	756	843	839	822
Mining.....	4,320	2,806	3,277	3,918	4,021	4,477	5,113	3,384	2,209	3,023
Utilities.....	3,127	2,925	2,878	3,193	3,010	3,129	3,206	3,628	3,702	3,672
Construction.....	22,072	18,572	20,663	21,616	21,932	22,731	24,724	26,088	26,661	28,933
Manufacturing.....	43,785	39,476	39,802	41,053	41,946	42,672	43,739	45,324	44,204	45,931
Wholesale trade.....	18,624	17,545	18,023	19,351	19,939	20,343	21,293	21,545	20,907	21,542
Retail trade.....	21,774	21,794	22,657	23,234	23,540	23,777	23,812	24,296	24,418	24,943
Transportation and warehousing.....	12,917	12,867	13,768	15,530	15,803	16,184	17,244	20,986	21,984	23,505
Broadcasting/publishing/internet technology.....	23,508	19,802	19,557	19,073	22,371	24,774	24,531	23,805	27,157	28,443
Finance and insurance.....	14,156	18,274	21,228	23,688	24,599	25,423	25,849	25,950	25,446	27,067
Real estate and rental and leasing.....	3,987	2,173	2,668	3,245	5,550	7,296	7,893	9,073	9,418	9,584
Professional and technical services.....	35,670	34,769	35,375	37,156	38,893	39,543	41,302	43,562	45,014	47,337
Management of companies and enterprises.....	13,413	13,239	13,355	15,120	16,121	17,148	17,434	18,427	18,199	19,583
Administrative services.....	11,692	11,067	11,938	12,853	12,997	13,557	14,139	14,806	14,856	15,825
Educational services.....	10,597	11,455	11,959	12,447	12,952	13,884	14,394	15,028	15,104	15,104
Health care and social assistance.....	49,256	51,067	53,046	54,711	56,093	57,778	59,184	61,783	63,352	66,121
Arts, entertainment, and recreation.....	3,454	3,679	4,104	4,237	4,451	4,558	5,054	5,050	5,624	5,922
Accommodation and food services.....	8,531	8,400	8,779	9,382	10,014	10,411	10,780	11,306	11,752	12,199
Other services, except public administration.....	12,683	12,386	13,196	13,585	14,464	14,381	15,169	16,230	16,474	16,862
Total private earnings	314,042	302,764	316,871	333,955	349,378	362,166	375,106	390,480	397,244	416,418
Government:										
Federal, civilian.....	9,114	9,474	9,823	9,827	9,669	9,411	9,636	10,000	10,218	10,513
Military.....	1,577	1,695	1,676	1,547	1,509	1,467	1,402	1,375	1,416	1,402
State government.....	12,300	12,550	12,893	12,916	12,675	13,249	13,503	13,868	13,847	14,148
Local government.....	31,373	31,790	32,944	32,436	31,529	33,501	33,620	33,963	34,087	34,903
Total government earnings	54,364	55,509	57,336	56,726	55,382	57,628	58,161	59,206	59,568	60,966
Total nonfarm earnings	368,406	358,273	374,207	390,681	404,760	419,794	433,267	449,686	456,812	477,384
Total workplace earnings	369,779	359,225	375,549	392,460	406,815	422,099	435,886	451,351	457,625	478,608
Other earnings/deductions (3)	154,581	152,489	158,279	170,162	180,281	170,073	182,010	191,272	199,540	203,926
Total personal income	\$ 524,360	\$ 511,714	\$ 533,828	\$ 562,622	\$ 587,096	\$ 592,172	\$ 617,896	\$ 642,623	\$ 657,165	\$ 682,534
Total personal income subject to the direct personal income tax rate (4)(5)	\$ 314,872	\$ 294,893	\$ 310,368	\$ 321,131	\$ 340,162	\$ 340,150	\$ 357,088	\$ 374,294	N/A	N/A
Direct personal income tax rate	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%

Sources:
 Personal income by industry is provided by the Bureau of Economic Analysis, US Department of Commerce (www.bea.gov/index.htm) through estimates released September 2018.
 Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2015 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-November 2017 (Fiscal Year 2016-17). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.pa.gov.

Notes:
 (1)-Various calendar years differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2017. The amounts shown in the prior year were based on estimates released by the Bureau of Economic Analysis, U.S. Department of Commerce in September 2017. These estimates have subsequently been revised (as provided in the September 2018 release).
 (2)-Personal income by industry is reported under the North American Industry Classification System.
 (3)-Other earnings/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.
 (4)-Total personal income subject to the direct personal income tax rate consists of taxable compensation, interest, dividends, net profits and other income, prior to the application of various tax credits. This amount is self-assessed by the taxpayer on their tax returns for the tax year. Due to the complexity and length of the tax return filing and review process, the total compilation is not yet available for release by the Pennsylvania Department of Revenue for the 2016 and 2017 tax years. Some figures differ from previous reports due to corrections.
 (5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). The information presented is based on those returns of the filers whose tax year ended during the applicable calendar year.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 6

Personal Income Tax Filers and Liability by Income Level
 2006 and 2015 Tax Years

Liability amounts in thousands					Liability amounts in thousands				
2006 Tax Year (1)(2)(3)(6)					2015 Tax Year (1)(2)(3)(6)				
Taxable Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability (4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability (4)	Percentage of Total
\$0	99,736	1.71%	\$ -	0.00%	\$0	230,196	3.68%	\$ -	0.00%
\$1-999	360,207	6.17%	4,430	0.05%	\$1-999	396,642	6.33%	4,224	0.04%
\$1,000-2,999	410,378	7.03%	24,505	0.28%	\$1,000-2,999	354,419	5.66%	21,110	0.18%
\$3,000-4,999	315,250	5.40%	38,338	0.43%	\$3,000-4,999	276,568	4.42%	33,643	0.29%
\$5,000-6,999	258,241	4.42%	47,283	0.53%	\$5,000-6,999	233,265	3.73%	42,752	0.37%
\$7,000-8,999	215,553	3.69%	52,748	0.60%	\$7,000-8,999	201,305	3.21%	49,292	0.43%
\$9,000-10,999	185,972	3.19%	56,975	0.64%	\$9,000-10,999	188,700	3.01%	57,913	0.50%
\$11,000-12,999	170,995	2.93%	62,948	0.71%	\$11,000-12,999	170,584	2.72%	62,772	0.55%
\$13,000-14,999	158,072	2.71%	67,881	0.77%	\$13,000-14,999	161,069	2.57%	69,206	0.60%
\$15,000-16,999	151,163	2.59%	74,208	0.84%	\$15,000-16,999	154,890	2.47%	75,979	0.66%
\$17,000-18,999	145,493	2.49%	80,369	0.91%	\$17,000-18,999	141,925	2.27%	78,386	0.68%
\$19,000-21,999	212,816	3.64%	133,908	1.51%	\$19,000-21,999	202,832	3.24%	127,552	1.11%
\$22,000-24,999	204,160	3.50%	147,209	1.66%	\$22,000-24,999	193,016	3.08%	139,197	1.21%
\$25,000-29,999	314,797	5.39%	265,286	3.00%	\$25,000-29,999	307,604	4.91%	259,364	2.26%
\$30,000-34,999	277,979	4.76%	276,862	3.13%	\$30,000-34,999	280,012	4.47%	278,920	2.43%
\$35,000-39,999	243,471	4.17%	279,901	3.17%	\$35,000-39,999	249,494	3.98%	286,829	2.50%
\$40,000-49,999	404,127	6.92%	555,723	6.28%	\$40,000-49,999	417,336	6.66%	573,816	4.99%
\$50,000-74,999	701,213	12.01%	1,322,579	14.96%	\$50,000-74,999	719,474	11.49%	1,357,228	11.81%
\$75,000-99,999	407,164	6.97%	1,078,398	12.20%	\$75,000-99,999	456,106	7.28%	1,212,243	10.55%
\$100,000-149,999	340,387	5.83%	1,254,983	14.19%	\$100,000-149,999	474,153	7.57%	1,764,645	15.36%
\$150,000 or more	261,422	4.48%	3,018,383	34.13%	(5) \$150,000-249,999	279,785	4.47%	1,610,069	14.01%
					(5) \$250,000 or more	172,493	2.75%	3,385,671	29.46%
Total (6)	<u>5,838,596</u>	100.00%	<u>\$ 8,842,916</u>	100.00%	Total	<u>6,261,868</u>	100.00%	<u>\$ 11,490,813</u>	100.00%

Sources:

For the 2006 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2015 tax year, the number of filers per taxable income level and the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) were obtained from the Statistical Supplement for the Pennsylvania Tax Compendium-November 2017 (Fiscal Year 2016-17). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.pa.gov.

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest personal income tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's personal income tax revenue.
- (2)-An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year ended during the 2006 or 2015 calendar years.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of personal income subject to the direct tax rate per income level was not yet available for release by the Pennsylvania Department of Revenue for the 2016 and 2017 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 2006 and 2015 tax years are presented as an alternative comparison.
- (4)-The estimated total personal income tax liability is calculated by multiplying the total personal income (as self-assessed by the individual tax filer) for the income level by the tax rate applicable during the tax year. The estimated liability is presented before any applicable tax credits were applied. Beginning with the 2004 tax year, the rate increased to 3.07%. This rate has been in effect for all subsequent tax years.
- (5)-Beginning with the 2009 tax year, the caption "\$150,000 or more" has been split into two captions: "\$150,000-249,999" and "\$250,000 or more". The amounts for the 2006 tax year are reported within the original caption; whereas the amounts reported in the 2015 tax year are reported within the two new captions.
- (6)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania

Revenue Capacity-Sales Tax

Table 7

Estimated Taxable Sales by Industry Classification of the Vendor
For the Last Ten Fiscal Years Ended June 30

(Amounts in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015(3)	2016(3)	2017(3)
Estimated Taxable Sales by Industry (1)(2)										
Manufacturing.....	\$ 7,199,717	\$ 6,952,853	\$ 6,310,433	\$ 7,182,245	\$ 7,426,068	\$ 7,391,732	\$ 7,555,033	\$ 6,866,437	\$ 6,852,700	\$ 6,788,750
Public utilities.....	4,763,633	4,832,233	4,750,250	5,002,202	4,680,907	4,492,653	4,761,067	4,624,260	4,565,533	4,583,617
Wholesale trade.....	12,239,917	10,215,170	10,492,100	11,590,333	12,419,575	12,316,835	12,792,633	14,385,888	14,344,567	14,582,100
Building materials.....	8,908,483	8,422,183	8,140,533	8,714,365	8,878,250	9,039,222	9,158,683	9,515,812	9,906,717	10,125,267
General merchandise.....	18,959,267	19,171,045	18,601,350	19,740,610	19,354,965	19,879,167	19,969,650	20,713,098	21,196,000	21,704,150
Food and beverage stores.....	6,023,083	6,197,422	6,416,383	6,437,433	6,440,322	6,580,377	6,575,817	6,605,795	6,901,517	6,836,300
Automotive dealers.....	3,834,950	3,709,158	3,753,567	3,997,238	4,157,458	4,122,673	4,367,833	4,775,440	4,926,033	4,843,200
Furniture and appliances.....	6,018,133	5,572,460	4,931,917	5,336,590	5,376,648	5,285,463	5,176,483	5,836,548	6,105,367	6,210,833
Other retail stores.....	5,764,733	5,598,740	5,580,450	6,095,245	6,408,673	6,447,917	6,414,917	6,228,017	6,459,733	6,849,317
Agriculture and mining.....	666,967	685,577	773,133	838,863	930,587	934,048	906,617	1,178,700	972,767	858,350
Construction.....	3,050,933	2,880,480	2,595,217	2,953,357	3,203,795	3,175,267	3,270,033	3,590,792	4,553,317	4,710,583
Service.....	41,914,783	40,875,482	40,899,250	43,579,387	43,694,423	45,039,627	46,338,883	47,927,008	49,470,517	51,073,967
Transportation, delivery, and warehousing.....	374,133	356,542	365,150	371,315	420,053	472,217	490,583	518,767	562,800	525,000
Government.....	211,100	285,217	383,150	411,452	362,387	305,027	342,117	281,192	295,717	305,767
Unclassified.....	1,627,583	2,036,060	1,363,333	1,254,633	1,042,267	1,132,720	1,194,517	755,647	1,417,100	1,607,417
Motor vehicle.....	18,346,914	15,992,425	16,595,200	17,714,378	19,343,573	19,459,690	20,626,333	22,103,607	22,453,967	22,779,633
Liquor sales.....	1,704,846	1,808,735	1,868,083	1,950,641	2,064,488	2,153,927	2,219,167	2,311,442	2,268,800	2,356,700
Total sales tax estimated base (4).....	\$ 141,609,177	\$ 135,591,782	\$ 133,819,500	\$ 143,170,287	\$ 146,204,439	\$ 148,228,560	\$ 152,160,367	\$ 158,218,450	\$ 163,253,150	\$ 166,740,950
Total direct sales tax rate.....	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Sources:

Sales tax remittances by industry and total direct sales tax rate (both used in the calculation of estimated taxable sales by industry) are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2017 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-November 2017 (Fiscal Year 2016-17). The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.pa.gov.

Notes:

- (1)-Estimated taxable sales are calculated based on sales tax remittances (made by vendors with their tax returns processed during the fiscal year) divided by the direct sales tax rate of 6%.
- (2)-Estimated taxable sales are organized by major industrial activity of the vendor and do not represent sales by product type. These are presented based on the North American Industry Classification System.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2018 fiscal year. Therefore, fiscal years 2008 through 2017 are presented as an alternative comparison.
- (4)-Totals may not foot due to rounding.

**Commonwealth of Pennsylvania
Revenue Capacity-Sales Tax**

Table 8
Sales Tax Remittances by Major Industry Classification
Fiscal Years Ended June 30, 2008 and June 30, 2017

June 30, 2008 (1)(2)			June 30, 2017 (1)(2)		
(Amounts in thousands)					
Industry (4)	Sales Tax Remittances Liability (3)	Percentage of Total	Industry (4)	Sales Tax Remittances Liability (3)	Percentage of Total
Manufacturing.....	\$ 431,983	5.08%	Manufacturing.....	\$ 407,325	4.07%
Public utilities.....	285,818	3.36%	Public utilities.....	275,017	2.75%
Wholesale trade.....	734,395	8.64%	Wholesale trade.....	874,926	8.75%
Building materials.....	534,509	6.29%	Building materials.....	607,516	6.07%
General merchandise.....	1,137,556	13.39%	General merchandise.....	1,302,249	13.02%
Food and beverage stores.....	361,385	4.25%	Food and beverage stores.....	410,178	4.10%
Automotive dealers.....	230,097	2.71%	Automotive dealers.....	290,592	2.90%
Furniture and appliances.....	361,088	4.25%	Furniture and appliances.....	372,650	3.72%
Other retail stores.....	345,884	4.07%	Other retail stores.....	410,959	4.11%
Agriculture and mining.....	40,018	0.47%	Agriculture and mining.....	51,501	0.51%
Construction.....	183,056	2.15%	Construction.....	282,635	2.83%
Service.....	2,514,887	29.60%	Service.....	3,064,438	30.63%
Transportation, delivery, and warehousing.....	22,448	0.26%	Transportation, delivery, and warehousing.....	31,500	0.31%
Government.....	12,666	0.15%	Government.....	18,346	0.18%
Unclassified.....	97,655	1.15%	Unclassified.....	96,445	0.96%
Motor vehicle.....	1,100,815	12.96%	Motor vehicle.....	1,366,778	13.66%
Liquor sales.....	102,291	1.20%	Liquor sales.....	141,402	1.41%
Total (5).....	<u>\$ 8,496,551</u>	100.00%	Total (5).....	<u>\$ 10,004,457</u>	100.00%
Sales Tax Licenses (6).....	235,879		Sales Tax Licenses (6).....	228,420	

Sources:

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2017 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-November 2017 (Fiscal Year 2016-17). This publication was obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.pa.gov.

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest sales tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's sales tax revenue.
- (2)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2018 fiscal year. Therefore, fiscal years 2008 and 2017 are presented as an alternative comparison.
- (3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.
- (4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. Both years are presented using the North American Industry Classification System (N.A.I.C.S.) Group.
- (5)-Totals may not foot due to rounding.
- (6)-The Commonwealth does not maintain a list of sales tax filers by the N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the ten largest sales tax filers. Therefore, the number of sales tax licenses is presented to indicate the potential number of filers during the applicable fiscal year.

**Commonwealth of Pennsylvania
Revenue Capacity-Corporate Tax**

Table 9
Corporate Net Income Tax
For the Last Ten Tax Years

	2006	2007	2008	2009	2010	2011	2012	2013 (6)	2014 (6)	2015 (6)
ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 23,247,419	\$ 20,787,641	\$ 19,652,968	\$ 17,631,632	\$ 19,219,761	\$ 18,084,820	\$ 23,948,802	\$ 24,837,562	\$ 26,991,525	\$ 24,962,477
NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)										
\$0.....	94,119	97,811	79,113	77,698	72,996	85,406	86,259	88,486	92,316	92,407
\$1-300.....	8,668	8,152	7,492	6,978	7,133	6,959	7,029	6,481	6,182	6,189
\$301-500.....	2,319	2,235	2,035	1,925	1,980	1,932	1,939	1,750	1,795	1,798
\$501-1,000.....	3,417	3,375	3,119	2,868	2,950	2,963	3,046	2,852	2,789	2,864
\$1,001-5,000.....	8,577	8,367	7,742	7,051	7,202	6,964	7,528	7,213	7,410	7,354
\$5,001-10,000.....	3,334	3,168	2,803	2,490	2,566	2,655	2,829	2,786	2,845	2,864
\$10,001-25,000.....	2,884	2,894	2,594	2,338	2,440	2,445	2,744	2,713	2,984	2,917
\$25,001-50,000.....	1,582	1,519	1,424	1,291	1,429	1,387	1,559	1,620	1,786	1,767
\$50,001-100,000.....	1,244	1,190	1,157	1,020	1,082	1,138	1,228	1,262	1,382	1,370
\$100,001-250,000.....	1,082	1,050	992	865	956	1,030	1,225	1,207	1,262	1,263
\$250,001-500,000.....	520	499	471	448	448	450	561	538	588	601
\$500,001-1,000,000.....	344	311	278	279	297	307	379	344	380	360
>\$1,000,000.....	341	326	304	267	289	273	418	429	462	430
Total corporate net income tax filers (4)(5).....	128,431	130,897	109,524	105,518	101,768	113,909	116,744	117,681	122,181	122,184
Total direct corporate net income tax rate.....	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%

Sources:

Information provided by the Pennsylvania Department of Revenue. The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. This publication was obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.pa.gov.

Notes:

- (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax has been phased out so that the last year for which a tax will apply will be the 2015 tax year. This table presents the positive corporate net income tax base, as well as the number of filers associated with this tax by liability range. It also presents the statutory corporate net income tax rate.
- (2)-The CNIT is based on separate company Federal taxable income and includes a number of additions to/subtractions from that base. This table shows the compilation of all reported taxable income (Federal income adjusted to the PA base and then apportioned). Many corporations report negative federal taxable income. In addition, the net operating loss deductions that Pennsylvania allows reduce otherwise profitable corporations' incomes below \$0.
- (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest corporate net income tax filers. Therefore, the schedule of the number of filers by corporate net income tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's corporate net income tax revenue. Those filers that report negative state taxable income are reported in the tax liability range of \$0, which accounts for the large number of filers within that range.
- (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of corporate net income subject to the direct corporate tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2016 and 2017 tax years. Therefore, tax years 2006 through 2015 are presented as an alternative comparison.
- (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the associated calendar years.
- (6)-For tax years 2006 through 2013, the amounts presented are actual. The amounts presented for the 2013 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2017 fiscal year, since that amount was an estimate. For the 2014 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2017 CAFR. And for the 2015 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania
Revenue Capacity-Corporate Tax

Table 10
 Capital Stock/Foreign Franchise Tax
 For the Last Ten Tax Years

	2006	2007	2008	2009	2010	2011	2012	2013 (6)	2014 (6)	2015 (6)
CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)										
Apportioned Capital Stock Value Compilation (amounts in thousands).....	\$ 189,755,093	\$ 207,628,892	\$ 230,292,556	\$ 248,089,965	\$ 261,854,671	\$ 306,098,458	\$ 332,214,769	\$ 358,188,662	\$ 372,993,261	\$ 416,506,873
NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)										
\$0-300.....	278,843	301,231	309,482	316,168	323,099	328,516	344,930	376,409	396,335	410,065
\$301-500.....	10,198	10,497	11,397	11,431	11,377	11,888	13,262	12,773	12,627	11,316
\$501-1,000.....	15,754	15,688	15,935	16,168	15,796	16,235	16,899	13,690	12,870	11,054
\$1,001-5,000.....	30,246	28,604	25,974	25,903	26,594	27,825	24,509	16,889	15,293	12,474
\$5,001-10,000.....	7,293	6,617	5,694	5,786	6,006	6,159	5,223	3,124	2,856	2,194
\$10,001-25,000.....	5,401	5,015	4,165	4,218	4,389	4,659	3,746	2,247	1,925	1,455
\$25,001-50,000.....	2,196	2,020	1,691	1,714	1,768	1,957	1,496	802	692	509
\$50,001-100,000.....	1,213	1,113	887	951	1,040	1,070	840	445	378	251
\$100,001-250,000.....	769	675	515	552	605	652	488	245	224	183
\$250,001-500,000.....	278	225	176	195	190	207	174	91	60	58
\$500,001-1,000,000.....	126	113	81	87	104	125	79	39	33	24
>\$1,000,000.....	93	81	73	83	81	99	70	24	11	4
Total capital stock and franchise tax filers (4)(5).....	352,410	371,879	376,070	383,256	391,049	399,392	411,716	426,778	443,304	449,587
Total direct capital stock and franchise tax rate.....	4.89 mills	3.89 mills	2.89 mills	2.89 mills	2.89 mills	2.89 mills	1.89 mills	0.89 mills	0.67 mills	.45 mills

Sources:
 Information provided by the Pennsylvania Department of Revenue. The direct capital stock/foreign franchise tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. This publication was obtained from the Pennsylvania Department of Revenue's website which is located at www.revenue.pa.gov.

Notes:
 (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax has been phased out so that the last year for which a tax will apply will be the 2015 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.
 (2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.
 (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue.
 (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of all reported taxable capital stock value subject to the statutory capital stock/foreign franchise tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2016 and 2017 tax years. Therefore, tax years 2006 through 2015 are presented as an alternative comparison.
 (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the associated calendar years.
 (6)-For tax years 2006 through 2013, the amounts presented are actual. The amounts presented for the 2013 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2017 fiscal year, since that amount was an estimate. For the 2014 tax year, the amounts presented are revised estimates from the amounts presented in the June 30, 2017 CAFR. And for the 2015 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania

Debt Capacity

Table 11
Outstanding Debt and Outstanding Debt Ratios
For the Last Ten Fiscal Years Ended June 30

(Expressed in Thousands, Except Debt per Capita)

PRIMARY GOVERNMENT (1)(2)(3)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
General obligation bonds.....	\$ 9,150,362	\$ 10,498,794	\$ 10,443,190	\$ 11,538,799	\$ 11,821,622	\$ 12,674,929	\$ 12,976,531	\$ 12,517,909	\$ 12,966,490	\$ 13,415,631
Capital leases/installment purchase obligations.....	36,730	31,958	26,907	129,757	125,020	117,961	110,208	103,183	100,054	99,259
Other financing obligations.....	67,500	67,500	67,500	334,230	324,860	315,620	285,740	285,740	285,740	502,390
Total governmental	9,254,592	10,598,252	10,537,597	12,002,786	12,271,502	13,108,510	13,372,479	12,906,832	13,352,284	14,017,280
Business-type activities:										
Demand revenue bonds payable.....	-	-	-	-	300,000	166,635	9,565	-	-	-
Notes payable.....	-	-	-	-	199	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	4,635,760	4,381,432	4,182,896	3,681,734	3,893,393	5,319,824
Total business-type	-	-	-	-	4,935,959	4,548,067	4,192,461	3,681,734	3,893,393	5,319,824
TOTAL PRIMARY GOVERNMENT	\$ 9,254,592	\$ 10,598,252	\$ 10,537,597	\$ 12,002,786	\$ 17,207,461	\$ 17,656,577	\$ 17,564,940	\$ 16,588,566	\$ 17,245,677	\$ 19,337,104
Debt as a Percentage of Personal Income (4)(5).....	1.76%	2.07%	1.97%	2.13%	2.93%	2.98%	2.84%	2.58%	2.62%	2.83%
Amount of Debt per Capita (4)(5).....	\$ 734	\$ 837	\$ 829	\$ 942	\$ 1,348	\$ 1,382	\$ 1,373	\$ 1,297	\$ 1,349	\$ 1,510

Source: The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2009-2012, the information can be found in the statement of net assets. Beginning with the 2013 fiscal year, the information can be found in the statement of net position.

- Notes:**
- (1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. Therefore, their outstanding debt is now reported within the business-type activities caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the governmental activities caption. These changes have not been retroactively applied to prior fiscal years.
 - (2)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.
 - (3)-Details on the Commonwealth's total outstanding debt for June 30, 2018 can be found in Note 6 for both governmental activities and business-type activities.
 - (4)-See Table 15 for summarized totals for personal income and population data that were used in the calculations of these ratios. Personal income detail is presented in Table 5. As detailed in Table 5 or 15 (as appropriate), the personal income and population data have changed in several calendar years from what was presented in those tables in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2017 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2017 CAFR.
 - (5)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.

Commonwealth of Pennsylvania

Debt Capacity

Table 12

Ratios of General Obligation Bonded Debt Outstanding
Last Ten Fiscal Years Ended as of June 30

(Amounts in thousands)

<u>Fiscal Year</u>	<u>(1) General Obligation Bonds</u>	<u>(2) Percentage of Actual Tax Revenues</u>	<u>(3) Per Capita</u>
2009	\$ 9,150,362	33.00%	\$ 724
2010	10,498,794	37.07%	825
2011	10,443,190	35.12%	820
2012	11,538,799	37.68%	902
2013	11,821,622	37.20%	923
2014	12,674,929	39.69%	991
2015	12,976,531	37.03%	1,014
2016	12,517,909	35.84%	977
2017	12,966,490	35.93%	1,013
2018	13,415,631	36.19%	1,043

Sources:

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the statement of net position, and the tax revenues used in the percentage of actual tax revenues can be found in the statement of activities.

Notes:

(1)-General obligation bonds amounts include the reported current and noncurrent amounts.

(2)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenues. Therefore, the total taxes shown in the governmental activities section of the statement of activities are used in this calculation.

(3)-General obligation bond amounts used in the per capita calculation are presented as of the fiscal year end. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year. As detailed in Table 15, the population data has changed in several calendar years from what was presented in that table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2017 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2017 CAFR.

Commonwealth of Pennsylvania

Debt Capacity

Table 13

Computation of Legal Debt Margin

As of August 31 for the Last Ten Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 32,044,066,363	\$ 32,604,981,495	\$ 33,234,462,394	\$ 33,742,407,887	\$ 34,173,780,183	\$ 35,048,322,844	\$ 36,290,613,411	\$ 37,326,634,317	\$ 38,281,016,071	\$ 39,318,865,371
Constitutional factor..... x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75
Constitutional debt limit for debt incurred without the approval of the electors (A)..	56,077,116,135	57,058,717,616	58,160,309,190	59,049,213,802	59,804,115,320	61,334,564,977	63,508,573,469	65,321,610,054	66,991,778,124	68,808,014,400
Less outstanding net debt (non-electorate approved).....	7,497,271,800	8,553,447,438	8,520,640,376	9,194,240,832	9,331,058,456	9,960,500,105	10,640,300,242	11,423,804,500	10,590,276,500	10,999,114,101
Legal debt margin (B).....	\$ 48,579,844,335	\$ 48,505,270,178	\$ 49,639,668,814	\$ 49,854,972,970	\$ 50,473,056,864	\$ 51,374,064,872	\$ 52,868,273,227	\$ 53,897,805,554	\$ 56,401,501,624	\$ 57,808,900,299
Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....	13.37%	14.99%	14.65%	15.57%	15.60%	16.24%	16.75%	17.49%	15.81%	15.99%

Source: The Governor's Budget Office

Notes:

(A)-The formula for the legal debt limit is contained in Article VIII, Section 7(a) of the Pennsylvania Constitution, which provides:

No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

Commonwealth of Pennsylvania

Demographic and Economic

Table 14
 Employment by Nonfarm Related Industry
 For the Last Ten Calendar Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Employment by nonfarm related industry (1)(2)(3):										
Total nonfarm:										
Private earnings:										
Goods producing:										
Natural resources and mining.....	22,200	22,300	26,600	33,800	37,000	36,000	37,700	33,900	24,900	26,500
Construction.....	254,200	224,000	214,900	221,500	224,300	223,800	228,900	235,400	239,000	248,600
Manufacturing.....	643,800	574,100	560,000	565,000	567,200	564,600	567,500	567,600	559,400	561,500
Total goods producing.....	920,200	820,400	801,500	820,300	828,500	824,400	834,100	836,900	823,300	836,600
Service providing:										
Trade.....	1,122,900	1,078,200	1,077,100	1,089,200	1,097,800	1,099,500	1,109,700	1,121,900	1,127,100	1,126,300
Information.....	105,900	99,600	93,300	91,100	90,300	87,800	85,400	84,900	84,400	83,000
Financial Activities.....	329,800	318,400	310,900	308,600	309,500	313,200	315,300	316,200	317,200	321,200
Professional and business services.....	709,400	674,800	689,900	716,800	733,100	748,000	761,600	779,500	793,500	800,600
Education and health services.....	1,094,700	1,112,900	1,127,800	1,144,000	1,156,300	1,162,700	1,180,000	1,191,300	1,217,600	1,246,900
Leisure and hospitality.....	503,300	494,300	500,600	511,200	524,100	532,200	537,600	545,300	557,400	566,600
Other services.....	254,300	249,900	250,300	253,000	254,000	252,200	253,500	255,100	260,100	261,300
Total service providing.....	4,120,300	4,028,100	4,049,900	4,113,900	4,165,100	4,195,600	4,243,100	4,294,200	4,357,300	4,405,900
Total private earnings.....	5,040,500	4,848,500	4,851,400	4,934,200	4,993,600	5,020,000	5,077,200	5,131,100	5,180,600	5,242,500
Government.....	759,700	768,200	770,600	751,400	732,300	720,700	711,400	704,700	703,300	703,000
Total nonfarm.....	5,800,200	5,616,700	5,622,000	5,685,600	5,725,900	5,740,700	5,788,600	5,835,800	5,883,900	5,945,500

Source: Information obtained from the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis website (www.paworkstats.pa.gov).

Notes:
 (1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.
 (2)-Various calendar years may differ from the totals presented in the same table in the June 30, 2017 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.
 (3)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania
Demographic and Economic

Table 15
Population and Per Capita Personal Income
For the Last Ten Calendar Years

Calendar Year	Population (1) (Amounts in thousands)			Personal Income (2) (Amounts in thousands)			Per Capita (3) Personal Income			Pennsylvania rate percentage above/(below) U.S.
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States		
2008	12,612	304,094	4.15%	524,360	12,438,527	4.22%	41,575	40,904	1.64%	
2009	12,667	306,772	4.13%	511,714	12,051,307	4.25%	40,398	39,284	2.84%	
2010	12,711	309,338	4.11%	533,828	12,541,995	4.26%	41,997	40,545	3.58%	
2011	12,743	311,644	4.09%	562,622	13,315,478	4.23%	44,152	42,727	3.34%	
2012	12,768	313,993	4.07%	587,096	13,998,383	4.19%	45,982	44,582	3.14%	
2013	12,778	316,235	4.04%	592,172	14,175,503	4.18%	46,341	44,826	3.38%	
2014	12,790	318,623	4.01%	617,896	14,983,140	4.12%	48,310	47,025	2.73%	
2015	12,791	321,040	3.98%	642,623	15,711,634	4.09%	50,240	48,940	2.66%	
2016	12,787	323,406	3.95%	657,165	16,115,630	4.08%	51,393	49,831	3.13%	
2017	12,806	325,719	3.93%	682,534	16,820,250	4.06%	53,300	51,640	3.21%	

Sources: Population data is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce website at <http://www.bea.gov/index.htm>, whose source is the U.S. Bureau of Census' mid-year population estimate. Personal income details can be found in Table 5.

Notes:

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' mid-year population estimate include revisions to the annual population estimate back to the calendar year of the most recent Census (2010 calendar year). Therefore, the totals shown may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2017 fiscal year.

(2)-Personal income data is provided as of the calendar year. Various calendar years differ from the totals presented in the June 30, 2017 CAFR. See Table 5 for details.

(3)-As a result of changes noted in Notes (1) and (2), the Per Capita Personal Income may differ from what was presented in the June 30, 2017 CAFR.

Commonwealth of Pennsylvania
Demographic and Economic

Table 16
Employment Information
For the Last Ten Calendar Years
(Amounts in thousands)

Calendar Year	Pennsylvania (1)				United States				Pennsylvania rate percentage above/(below) U.S.
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
2008	6,452	6,110	342	5.3%	154,287	145,362	8,924	5.8%	(8.62)%
2009	6,400	5,885	515	8.0%	154,142	139,877	14,265	9.3%	(13.98)%
2010	6,381	5,841	540	8.5%	153,889	139,064	14,825	9.6%	(11.46)%
2011	6,396	5,889	507	7.9%	153,617	139,869	13,747	8.9%	(11.24)%
2012	6,463	5,957	506	7.8%	154,975	142,469	12,506	8.1%	(3.70)%
2013	6,442	5,968	475	7.4%	155,389	143,929	11,460	7.4%	0.00%
2014	6,396	6,021	375	5.9%	155,922	146,305	9,617	6.2%	(4.84)%
2015	6,421	6,080	340	5.3%	157,130	148,834	8,296	5.3%	0.00%
2016	6,453	6,105	348	5.4%	159,187	151,436	7,751	4.9%	10.20%
2017	6,427	6,112	316	4.9%	160,320	153,337	6,982	4.4%	11.36%

Sources: Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at www.paworkstats.pa.gov.

Notes:

(1)-Various calendar years may differ from the totals presented in the same table in the June 30, 2017 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

Commonwealth of Pennsylvania

Operating Information

Table 17

Commonwealth Employees by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Direction and supportive services (1)										
Legislative.....	3,327	3,133	2,959	2,844	2,784	2,749	2,716	2,596	2,583	2,564
Revenue.....	2,254	2,058	1,965	1,934	1,883	1,867	1,902	1,869	1,880	1,856
Executive Offices.....	2,004	1,906	1,767	1,715	1,612	1,554	1,496	1,429	1,441	1,460
General Services.....	1,244	1,145	1,115	1,030	993	950	926	863	866	834
Auditor General.....	708	670	606	598	475	475	472	463	469	448
Treasurer.....	492	420	408	396	386	373	353	345	357	373
Other.....	281	274	270	273	268	256	248	239	230	1,549
Total direction and supportive services.....	10,310	9,606	9,090	8,790	8,401	8,224	8,113	7,804	7,826	9,084
Protection of persons and property										
Corrections.....	16,139	16,232	15,740	15,751	15,398	15,177	15,197	15,340	15,374	15,367
State Police.....	6,193	5,989	6,015	5,978	5,938	6,139	6,344	6,372	6,210	6,079
Liquor Control Board.....	5,031	5,082	4,847	4,952	5,007	5,086	5,093	5,166	5,424	5,358
Environmental Protection.....	2,786	2,590	2,609	2,648	2,616	2,522	2,491	2,412	2,411	2,319
Judiciary.....	2,141	2,197	2,154	2,176	2,150	2,171	2,160	2,179	2,178	2,090
Transportation.....	1,185	1,125	1,129	1,194	1,191	1,188	1,189	1,193	1,174	1,167
Probation and Parole Board.....	1,141	1,114	1,105	1,162	1,199	1,217	1,228	1,267	1,268	1,285
Agriculture.....	1,112	995	962	919	952	914	921	884	868	843
Attorney General.....	955	897	814	821	810	836	840	836	859	857
Military and Veterans Affairs.....	529	478	450	468	467	486	474	486	500	490
State.....	509	497	486	490	492	489	485	479	492	484
Other.....	2,040	2,005	1,870	1,923	1,844	1,827	1,782	1,729	1,713	1,692
Total protection of persons and property.....	39,761	39,201	38,181	38,482	38,064	38,052	38,204	38,343	38,471	38,031
Public education										
Education.....	578	544	503	521	514	499	488	474	475	438
Other.....	16	15	15	-	-	-	-	-	-	-
Total public education.....	594	559	518	521	514	499	488	474	475	438
Health and human services										
Human Services.....	18,399	18,300	17,169	16,995	16,504	16,643	16,829	17,164	16,914	16,064
Labor and Industry.....	4,740	4,887	4,632	4,599	4,140	4,037	3,785	3,674	3,108	2,837
Military and Veterans Affairs.....	1,965	2,033	2,049	2,023	1,924	1,961	1,949	1,959	1,923	1,925
Health.....	1,490	1,384	1,364	1,461	1,331	1,281	1,236	1,249	1,282	1,117
Other.....	98	193	206	220	252	284	301	290	279	277
Total health and human services.....	26,692	26,797	25,420	25,298	24,151	24,206	24,100	24,336	23,506	22,220
Economic development										
Labor and Industry.....	930	934	912	942	919	897	903	908	910	867
Community and Economic Development.....	352	334	311	302	321	313	307	299	298	283
Total economic development.....	1,282	1,268	1,223	1,244	1,240	1,210	1,210	1,207	1,208	1,150

Commonwealth of Pennsylvania

Operating Information

Table 17

Commonwealth Employees by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Transportation										
Transportation.....	10,655	10,626	10,486	10,696	10,695	10,609	10,480	10,490	10,522	10,230
Total transportation.....	10,655	10,626	10,486	10,696	10,695	10,609	10,480	10,490	10,522	10,230
Recreation and cultural enrichment										
Conservation and Natural Resources.....	2,493	2,279	2,219	2,335	2,392	2,407	2,425	2,387	2,396	2,278
Game Commission.....	706	734	735	774	769	797	781	725	683	705
Fish and Boat Commission.....	485	486	486	481	448	433	416	432	426	409
Historical and Museum Commission.....	347	228	213	231	214	222	218	205	205	201
Other.....	92	56	50	51	43	41	42	41	40	40
Total recreation and cultural enrichment.....	4,123	3,783	3,703	3,872	3,866	3,900	3,882	3,790	3,750	3,633
Total Commonwealth Employees.....	93,417	91,840	88,621	88,903	86,931	86,700	86,477	86,444	85,758	84,786

Source: Employees for the Legislature, Judiciary, Auditor General, Treasury and Attorney General were provided by the individual agency. All other agencies fall within the Governor's jurisdiction and were provided by the Office of Administration.

Notes:
(1)- Increase due to a human resources and information technology consolidation.

Commonwealth of Pennsylvania

Operating Information

Table 18
Operating Indicators by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2009	2010	2011	2012	2013	2014	2015	2016	2017(4)	2018(4)
Direction and supportive services:										
Executive Offices										
Juvenile Court Judges' Commission										
Juveniles arrested for violent crimes.....	4,580	4,552	4,352	3,692	3,610	3,220	2,909	2,824	2,800	2,750
Protection of persons and property:										
Attorney General										
Local drug task force arrests	6,521	6,585	5,950	6,198	6,781	7,388	8,472	7,008	7,778	8,600
Consumer complaints concerning business practices investigated and mediated.....	47,299	44,582	38,211	37,920	34,382	36,473	26,591	20,736	20,230	22,000
Corrections										
Inmates (1).....	49,307	51,321	51,638	51,184	51,382	51,118	50,366	49,913	48,510	48,050
Inmates enrolled in academic educational programs (1).....	14,551	13,152	12,064	12,871	11,259	11,050	12,258	11,996	11,630	11,500
Military and Veterans Affairs										
Pennsylvania National Guard End Strength Ceiling.....	19,785	19,253	19,181	19,244	19,301	19,708	19,442	19,483	19,648	19,499
Personnel receiving training at Fort Indiantown Gap.....	114,542	135,072	125,373	122,846	126,427	136,801	126,722	124,264	120,208	123,730
Revenue										
Taxpayer Services and Information Center calls answered.....	398,564	345,675	369,974	406,468	401,739	411,284	498,452	410,392	410,973	400,000
Households provided property tax or rent assistance.....	562,838	579,754	604,130	603,726	598,075	588,021	578,790	517,645	511,635	506,000
Judiciary										
Caseload (cases filed/reopened/appeals) (1).....	3,884,107	3,825,045	3,761,142	3,614,627	3,514,214	3,495,265	3,299,021	3,273,085	3,134,994	3,252,601
Public education:										
Education										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12).....	1,800,314	1,780,413	1,781,206	1,765,327	1,764,000	1,764,000	1,763,000	1,731,588	1,730,000	1,728,000
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education.....	105,566	109,636	112,030	109,738	107,012	104,458	102,322	99,870	97,477	95,182
Community Colleges.....	98,988	106,270	106,164	103,971	97,981	94,051	89,807	86,185	81,941	82,706
State-Related Universities.....	152,678	156,435	157,939	156,517	160,589	161,442	164,075	165,654	170,461	172,327
Non-State Related Universities and Colleges.....	49,532	888	840	809	806	858	842	865	1,040	1,131
Health and human services:										
Aging and Long Term Living										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average).....	312,916	309,329	307,585	298,137	288,645	275,390	268,805	256,622	245,231	234,637
Total prescriptions per year	11,605,980	10,773,967	10,341,180	10,288,430	9,739,080	9,040,508	8,386,716	7,565,493	6,775,596	6,375,625
Health										
Vital events (births, deaths, fetal deaths) registered.....	273,381	268,788	270,194	273,522	272,054	271,697	269,203	272,623	273,888	273,888
Human Services										
Persons participating in Medical Assistance (monthly average).....	1,972,559	2,072,461	2,135,477	2,225,011	2,123,710	2,147,889	2,354,542	2,718,110	2,852,697	2,890,015
Persons receiving cash assistance (monthly average).....	221,744	240,650	248,173	248,298	180,235	165,794	160,490	143,765	126,283	118,321
Community Mental Health Services.....										
Total persons provided mental health services.....	525,136	530,387	649,375	655,577	720,079	696,834	705,154	761,391	798,820	799,870
Persons receiving Intellectual Disability services during fiscal year.....	53,284	53,399	53,455	53,569	53,613	53,618	54,362	54,697	55,220	57,495
Economic development:										
Labor and Industry										
Total public health and safety inspections performed.....	76,253	76,136	77,142	87,913	81,718	82,800	74,778	67,600	79,478	76,000
Vocational Rehabilitation-Eligible participants with active plans.....	41,316	43,644	48,652	45,471	52,354	52,000	52,500	41,579	39,771	40,000
Transportation:										
Transportation										
Miles of State maintained highways(2).....	39,861	39,845	39,793	39,797	39,792	39,760	40,000	40,000	40,000	40,000
Passengers carried by State-assisted operators (millions annually).....	434	423	432	441	435	427	430	426	404	406
Highway and Bridge Construction/Reconstruction/Maintenance										
Total miles of state maintained highways improved.....	6,150	5,712	5,792	5,976	4,956	3,954	5,059	5,291	5,305	5,794
Bridges replaced/repaired.....	589	658	442	315	291	270	278	550	899	677

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2009	2010	2011	2012	2013	2014	2015	2016	2017(4)	2018(4)
Bridges preserved.....	371	569	345	230	193	200	234	234	248	180
Recreation and cultural enrichment:										
Conservation and Natural Resources										
State park attendance (visitor days per calendar year).....	37,000,000	38,400,000	37,600,000	37,600,000	36,400,000	38,000,000	38,000,000	40,500,000	40,100,000	40,200,000
Fish and Boat Commission										
Fishing licenses sold.....	839,172	883,932	810,050	876,233	852,944	859,863	841,418	885,061	879,245	879,245
Game Commission										
Hunting licenses sold.....	926,892	946,497	927,527	931,060	925,000	952,989	943,836	935,767	914,244	886,817
Historical and Museum Commission										
Records maintained by the State Records Center (in thousands) (3).....	811,000	811,000	239,540	239,772	239,002	249,000	249,000	265,521	237,492	230,000
Annual visits to commission historical sites and museums (in thousands).....	1,425	1,425	1,283	1,045	1,060	1,070	616	697	628	650

Sources: Governor's Office of the Budget, Comptroller Offices, various agencies

Notes:

- (1)-Amounts are presented as of December 31.
- (2)-Beginning with the 2015 fiscal year this figure is a rounded estimate.
- (3)-Beginning with the 2011 fiscal year, this amount was revised to reflect the number of boxes maintained. Previous years reflected the actual number of records.
- (4)-For the latest fiscal year, a majority of the indicators presented are estimates. For the immediately previous fiscal year, the amounts that were presented as estimates in the Commonwealth's CAFR for the June 30, 2017 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2017 CAFR.

Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency
For the Last Ten Fiscal Years Ended June 30

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GOVERNMENTAL ACTIVITIES										
Direction and Supportive Services										
Department of General Services										
Number of buildings	85	119	116	116	116	115	115	115	115	115
Total pieces of machinery and equipment.....	148	394	139	155	134	141	147	138	144	156
Capital and Agency projects in design and/or construction(1).....	425	638	725	764	799	767	647	315	258	231
Vehicles in fleet.....	16,307	15,808	16,353	15,821	14,704	14,542	14,253	14,555	14,674	14,981
Protection of persons and property										
Department of Corrections										
State Correctional Institutions (2).....	27	27	27	27	26	26	26	26	25	25
State Police										
Patrol vehicles.....	2,189	2,182	2,182	2,182	2,182	2,182	2,182	2,182	2,197	2,282
Police stations and/or troop headquarters (2).....	24	25	25	25	26	26	26	26	26	26
Department of Military and Veterans Affairs										
Number of National Guard readiness centers.....	117	100	100	99	99	85	84	87	85	85
Public education										
State System of Higher Education (SSHE)-Component Unit (3)										
Number of SSHE universities using Commonwealth owned buildings and land.....	14	14	14	14	14	14	14	14	14	14
Health and human services										
Department of Human Services										
Total number of hospital or treatment center complexes (2).....	18	19	17	17	17	17	17	17	16	16
Transportation										
Department of Transportation										
Total pieces of equipment	7,969	7,707	7,722	7,792	8,128	8,242	8,388	8,559	8,928	9,344
Total lane miles of highways (state or locally maintained)(4).....	117,187	117,385	117,499	117,588	117,681	117,760	118,000	118,000	118,000	118,000
Recreational and cultural enrichment										
Department of Conservation and Natural Resources										
Acres of land in state parks and forests (in millions).....	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Game Commission										
Acres of game lands (in millions).....	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Fish Commission										
Public boat launches.....	271	271	271	271	271	271	271	271	271	271
Total number of fish hatcheries.....	15	15	15	15	15	15	15	15	15	15
Historical and Museum Commission										
Museums and historic sites (5).....	40	40	40	39	39	37	37	34	30	29
Economic Development										
Department of Labor and Industry										
Square footage of rehabilitation centers owned by the Commonwealth.....	444,035	444,035	444,035	444,035	469,065	469,065	469,065	469,065	469,065	469,065

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.

Notes:

- (1)-Beginning with the 2016 fiscal year, only projects that are actively being designed and/or constructed are included.
- (2)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (e.g. land) and depreciable assets (e.g. machinery and equipment, buildings, improvements, etc.).
- (3)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Position. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.
- (4) Beginning with the 2014 fiscal year, the estimated miles have been rounded to the nearest thousand.
- (5) Counts have been updated from 2009 forward to reflect PHMC owned sites deemed to have local, but not statewide significance. Therefore, the amounts shown may differ from what was presented in the June 30, 2017 CAFR.



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Appendix

APPENDIX - Legend of Abbreviations

The following legend presents descriptions of abbreviations that appear throughout the report:

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
AAL	Actuarial Accrued Liability
APSCUF	Association of Pennsylvania State College and University Faculties
ARO	Asset Retirement Obligation
BFTDA	Ben Franklin Technology Development Authority
BMP	Best Management Practices
C&R	Compromise and Release
CAFR	Comprehensive Annual Financial Report
CFA	Commonwealth Financing Authority
CFP	Charitable Food Program
CHIP	Children's Health Insurance Program
CIP	Commonwealth Investment Program
COLA	Cost of Living Adjustments
CMO	Collateralized Mortgage Obligation
CRIZ	City Revitalization Improvement Zone
CTF	Collective Trust Fund
CU	Component Unit
DCED	Department of Community and Economic Development
DCP	Deferred Compensation Program
DEP	Department of Environmental Protection
DGS	Department of General Services
DHS	Department of Human Services
DOH	Department of Health
DOR	Department of Revenue
DOT	Department of Transportation
DPCU	Discretely Presented Component Unit
EAFE	European, Australian, and Far East
EIO	Education Improvement Organization
EITC	Educational Improvement Tax Credit
ETF	Exchange-Traded Funds
EZP	Enterprise Zone Program
GA	General Assistance
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GO	General Obligation
GSE	Government Sponsored Enterprise
GSP	Guaranteed Savings Plan
HOP	Health Options Program
IFPA	Insurance Fraud Prevention Authority
IBNR	Incurred But Not Reported
JCTC	Job Creation Tax Credit
KBRA	Kroll Bond Rating Agency
KIZ	Keystone Innovation Zone Program
KOZ	Keystone Opportunity Zone Program
L&I	Department of Labor and Industry
LCB	Liquor Control Board

APPENDIX - Legend of Abbreviations

LIBOR	London Interbank Offered Rate
LOC	Line of Credit
MBS	Mortgage-Backed Securities
Mcare	Medical Care Availability and Reduction of Error Fund
MCM	Mellon Capital Management
MD&A	Management's Discussion and Analysis
MLF	Motor License Fund
MLP	Master Limited Partnership
MOU	Memorandum of Understanding
NAICS	North American Industry Classification System
NAP	Neighborhood Assistance Program
NAV	Net Asset Value
NIZ	Neighborhood Improvement Zone
NPL	Net Pension Liability
NPP	Neighborhood Partnership Program
NRSRA	Nationally Recognized Statistical Rating Agencies
NRSRO	Nationally Recognized Statistical Rating Organization
NYSE	New York Stock Exchange
OFT	Oil Company Franchise Tax
OPEB	Other Post-Employment Benefits
OSTC	Opportunity Scholarship Tax Credit
PACE	Pharmaceutical Assistance Contract for the Elderly
PCCA	Pennsylvania Convention Center Authority
PEBTF	Pennsylvania Employees' Benefit Trust Fund
PEDA	Pennsylvania Energy Development Authority
PEDFA	Pennsylvania Economic Development Financing Authority
PEMA	Pennsylvania Emergency Management Agency
PennDOT	Pennsylvania Department of Transportation
PENNVEST	Pennsylvania Infrastructure Investment Authority
PG	Primary Government
PHEAA	Pennsylvania Higher Education Assistance Agency
PHEFA	Pennsylvania Higher Education Facilities Authority
PHFA	Pennsylvania Housing Finance Agency
PHMC	Pennsylvania Historical and Museum Commission
PIB	Pennsylvania Investment Bank Fund
PIDA	Pennsylvania Industrial Development Authority
PKSO	Pre-Kindergarten Scholarship Organization
PLCB	Pennsylvania Liquor Control Board
PPC	Port of Pittsburgh Commission
PRPA	Pennsylvania Regional Port Authority
PSDC	Philadelphia Shipyard Development Corporation
PSERS	Public School Employees' Retirement System
PTC	Pennsylvania Turnpike Commission
PTRR	Property Tax and Rent Rebate
PURTA	Public Utility Realty Tax Act
REAP	Resource Enhancement and Protection Tax Credit
REHP	Retired Employees' Health Program
REIT	Real Estate Investment Trust
RPSPP	Retired Pennsylvania State Police Program
RSI	Required Supplementary Information

APPENDIX - Legend of Abbreviations

S&P	Standard & Poor's
SCC	State Conservation Commission
SEA	Sports and Exhibition Authority
SERS	State Employees' Retirement System
SMA	Separately Managed Accounts
SO	Scholarship Organization
SPP	Special Program Priorities
SPSBA	State Public School Building Authority
SSHE	State System of Higher Education
STIF	Short Term Investment Fund
STIP	Short Term Investment Pool
SWIF	State Workers' Insurance Fund
TANF	Temporary Assistance for Needy Families
TSCT	Thaddeus Stevens College of Technology
UAAL	Unfunded Actuarial Accrued Liability
UC	Unemployment Compensation
USTIF	Underground Storage Tank Indemnification Fund